

City of Sacramento
Statement of Net Assets
Proprietary Funds

June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds			Total	Governmental Activities - Internal Service Funds
	Community Center Fund	SHRA Enterprise Fund	Other Enterprise Funds		
LIABILITIES					
Current liabilities:					
Securities lending obligations	-	-	5,272	26,528	22,772
Accounts payable and accrued expenses	883	4,817	1,683	18,330	6,164
Accrued compensated absences	28	-	45	393	1,868
Due to other funds	-	3,525	-	5,532	-
Interest payable	1,115	-	632	3,268	20
Liability for landfill closure	-	-	-	760	-
Deposits	-	1,073	103	1,176	-
Deferred revenue	963	141	324	1,603	465
Accrued claims	-	-	-	-	21,422
Revenue and other bonds payable, net, current portion	4,354	-	1,379	9,713	241
Certificates of participation payable, net, current portion	15	-	-	15	-
Capital lease payable, current portion	-	-	-	227	-
Notes payable, current portion	-	57	231	2,684	-
Total current liabilities	7,358	9,613	9,669	70,229	52,952
Noncurrent liabilities:					
Accrued compensated absences	520	-	822	6,509	2,190
Advances from other funds	9,144	33,755	6,581	49,480	1,000
Accrued claims	-	-	-	-	45,549
Liability for landfill closure	-	-	-	14,430	-
Revenue and other bonds payable, net	90,659	-	50,553	363,808	5,040
Capital lease payable	-	-	-	919	-
Notes payable	-	46,969	6,675	96,179	-
Total noncurrent liabilities	100,323	80,724	64,631	531,325	53,779
Total liabilities	107,681	90,337	74,300	601,554	106,731
NET ASSETS					
Invested in capital assets, net of related debt	13,438	184,044	21,659	839,889	39,899
Restricted for:					
Housing and redevelopment	-	1,776	-	1,776	505
Capital projects	-	-	200	200	-
Other	-	1,038	-	1,038	-
Unrestricted (deficit)	462	11,531	12,167	93,751	(2,243)
Total net assets (deficit)	\$ 13,900	\$ 198,389	\$ 34,026	\$ 936,654	\$ 38,161

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds

For the Fiscal Year Ended June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Drainage Fund	Solid Waste Fund
Operating revenues:				
Charges for services:				
User fees and charges	\$ 47,164	\$ 15,506	\$ 31,275	\$ 41,416
Rents and concessions	-	-	-	-
Charge to Regional Sanitation District for operating and maintaining treatment plant	-	800	-	-
Miscellaneous	1,845	26	61	825
Total operating revenues	49,009	16,332	31,336	42,241
Operating expenses:				
Employee services	16,285	6,013	14,999	13,200
Services and supplies	15,343	3,939	9,004	23,272
Housing assistance payments	-	-	-	-
Depreciation	9,916	3,227	9,424	1,269
Insurance premiums	-	-	-	-
Claims expense	-	-	-	-
Total operating expenses	41,544	13,179	33,427	37,741
Operating income (loss)	7,465	3,153	(2,091)	4,500
Nonoperating revenues (expenses):				
Intergovernmental	-	-	-	-
Interest and investment revenue	1,400	338	993	47
Transient occupancy taxes	-	-	-	-
Revenue from other agencies	-	-	-	484
Interest expense	(10,305)	(268)	(1,557)	(1,494)
Amortization of deferred charges	(101)	-	(4)	(25)
Gain or (loss) on disposition of capital assets	62	(4)	-	-
Total nonoperating revenues (expenses)	(8,944)	66	(568)	(988)
Income (loss) before contributions and transfers	(1,479)	3,219	(2,659)	3,512
Capital contributions	14,722	11,554	-	-
Transfers in	5,761	2,309	3,673	981
Transfers out	(4,910)	(1,699)	(3,438)	(4,493)
Change in net assets	14,094	15,383	(2,424)	-
Total net assets (deficit), beginning of year	268,236	96,390	304,628	(5,968)
Total net assets (deficit), end of year	\$ 282,330	\$ 111,773	\$ 302,204	\$ (5,968)

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Community Center Fund	SHRA Enterprise Fund	Other Enterprise Funds	Total	
Operating revenues:					
Charges for services:					
User fees and charges	\$ 1,921	\$ 13,720	\$ 26,542	\$ 177,544	\$ 60,677
Rents and concessions	4,359	-	2,537	6,896	-
Charge to Regional Sanitation District for operating and maintaining treatment plant	-	-	-	800	-
Miscellaneous	111	1,770	262	4,900	798
Total operating revenues	<u>6,391</u>	<u>15,490</u>	<u>29,341</u>	<u>190,140</u>	<u>61,475</u>
Operating expenses:					
Employee services	5,122	14,249	10,264	80,132	13,645
Services and supplies	4,854	17,028	10,574	84,014	21,513
Housing assistance payments	-	96,818	-	96,818	-
Depreciation	2,573	6,245	2,852	35,506	8,589
Insurance premiums	-	-	-	-	1,057
Claims expense	-	-	-	-	23,326
Total operating expenses	<u>12,549</u>	<u>134,340</u>	<u>23,690</u>	<u>296,470</u>	<u>68,130</u>
Operating income (loss)	<u>(6,158)</u>	<u>(118,850)</u>	<u>5,651</u>	<u>(106,330)</u>	<u>(6,655)</u>
Nonoperating revenues (expenses):					
Intergovernmental	-	110,490	-	110,490	-
Interest and investment revenue	768	169	627	4,342	2,009
Transient occupancy taxes	14,398	-	-	14,398	-
Revenue from other agencies	-	-	597	1,081	-
Interest expense	(6,385)	(942)	(3,885)	(24,836)	(374)
Amortization of deferred charges	(132)	-	(35)	(297)	(2)
Gain or (loss) on disposition of capital assets	-	6,833	-	6,891	65
Total nonoperating revenues (expenses)	<u>8,649</u>	<u>116,550</u>	<u>(2,696)</u>	<u>112,069</u>	<u>1,698</u>
Income (loss) before transfers	<u>2,491</u>	<u>(2,300)</u>	<u>2,955</u>	<u>5,739</u>	<u>(4,957)</u>
Capital contributions	-	21,362	-	47,638	2,295
Transfers in	1,961	1,526	351	16,562	787
Transfers out	(1,540)	(609)	(2,393)	(19,082)	(3,753)
Change in net assets	<u>2,912</u>	<u>19,979</u>	<u>913</u>	<u>50,857</u>	<u>(5,628)</u>
Total net assets (deficit), beginning of year	<u>10,988</u>	<u>178,410</u>	<u>33,113</u>	<u>885,797</u>	<u>43,789</u>
Total net assets (deficit), end of year	<u>\$ 13,900</u>	<u>\$ 198,389</u>	<u>\$ 34,026</u>	<u>\$ 936,654</u>	<u>\$ 38,161</u>

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Drainage Fund	Solid Waste Fund
Cash flows from operating activities:				
Receipts from customers and users	\$ 49,182	\$ 15,779	\$ 31,257	\$ 41,966
Receipts from interfund services provided	-	-	-	-
Payments to suppliers	(16,692)	(4,912)	(8,895)	(23,628)
Payments to employees	(16,322)	(5,974)	(14,832)	(12,972)
Housing assistance payments on behalf of tenants	-	-	-	-
Claims paid	-	-	-	-
Net cash provided by (used for) operating activities	<u>16,168</u>	<u>4,893</u>	<u>7,530</u>	<u>5,366</u>
Cash flows from noncapital financing activities:				
Transient occupancy taxes	-	-	-	-
Revenue from other agencies	-	-	-	484
Transfers in from other funds	-	-	-	981
Transfers out to other funds	(4,897)	(1,659)	(3,408)	(4,452)
Increase in due to other funds	-	-	-	-
Increase in due from other funds	-	-	-	-
Decrease in due to other funds	-	-	-	513
Increase in advances to other funds	-	-	-	-
Increase in advances from other funds	-	-	-	-
Decrease in advances to other funds	-	-	-	-
Decrease in advances from other funds	-	-	-	-
Decrease in intergovernmental receivable	-	-	-	-
Net cash provided by (used for) noncapital financing activities	<u>(4,897)</u>	<u>(1,659)</u>	<u>(3,408)</u>	<u>(2,474)</u>
Cash flows from capital and related financing activities:				
Proceeds from issuance of debt	-	-	-	1,200
Acquisition and construction of capital assets	(30,679)	(5,828)	(6,675)	(2,489)
Proceeds from sale of capital assets	63	-	-	-
Principal payments on capital debt	(3,145)	(585)	(2,109)	(564)
Interest payments on capital debt	(9,995)	(274)	(1,291)	(1,488)
Transfers in from other funds	5,761	2,309	3,673	-
Capital contributions	5,897	348	-	-
Net cash provided by (used for) capital and related financing activities	<u>(32,098)</u>	<u>(4,030)</u>	<u>(6,402)</u>	<u>(3,341)</u>
Cash flows from investing activities:				
Proceeds from sale of investments	-	-	1,232	-
Collection of interest	1,314	406	889	47
Net unrealized investments gains (losses)	(198)	(17)	(162)	-
Loan repayments	502	100	302	-
Change in securities lending obligation	(2,103)	(2,865)	2,074	-
Net cash provided by (used for) investing activities	<u>(485)</u>	<u>(2,376)</u>	<u>4,335</u>	<u>47</u>
Net increase (decrease) in cash and cash equivalents	<u>(21,312)</u>	<u>(3,172)</u>	<u>2,055</u>	<u>(402)</u>
Cash and cash equivalents, beginning of year	<u>72,021</u>	<u>14,721</u>	<u>34,547</u>	<u>4,321</u>
Cash and cash equivalents, end of year	<u>\$ 50,709</u>	<u>\$ 11,549</u>	<u>\$ 36,602</u>	<u>\$ 3,919</u>

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds			Total	Governmental Activities - Internal Service Funds
	Community Center Fund	SHRA Enterprise Fund	Other Enterprise Funds		
Cash flows from operating activities:					
Receipts from customers and users	\$ 6,828	\$ 15,148	\$ 28,985	\$ 189,145	\$ -
Receipts from interfund services provided	-	-	-	-	91,137
Payments to suppliers	(4,970)	(16,721)	(10,769)	(86,587)	(54,029)
Payments to employees	(5,097)	(14,029)	(10,133)	(79,359)	(12,879)
Housing assistance payments on behalf of tenants	-	(96,818)	-	(96,818)	-
Claims paid	-	-	-	-	(15,205)
Net cash provided by (used for) operating activities	(3,239)	(112,420)	8,083	(73,619)	9,024
Cash flows from noncapital financing activities:					
Transient occupancy taxes	14,477	-	-	14,477	-
Revenue from other agencies	-	-	-	484	-
Transfers in from other funds	1,961	1,526	351	4,819	192
Transfers out to other funds	(1,540)	(609)	(2,393)	(18,958)	(2,603)
Increase in due to other funds	-	(8)	(91)	(99)	-
Increase in due from other funds	-	-	-	-	(9,803)
Decrease in due to other funds	-	(10,002)	-	(9,489)	8
Increase in advances to other funds	-	(56)	-	(56)	(1,018)
Increase in advances from other funds	430	12,138	532	13,100	(854)
Decrease in advances to other funds	-	-	-	-	136
Decrease in advances from other funds	-	-	(54)	(54)	-
Intergovernmental revenue received	-	120,837	597	121,434	(25)
Net cash provided by (used for) noncapital	15,328	123,826	(1,058)	125,658	(13,967)
Cash flows from capital and related financing activities:					
Proceeds from issuance of debt	-	38,650	200	40,050	-
Acquisition and construction of capital assets	(770)	(29,633)	(3,770)	(79,844)	(5,102)
Proceeds from sale of capital assets	-	123	-	186	380
Principal payments on capital debt	(3,417)	(6,051)	(1,747)	(17,618)	(230)
Interest payments on capital debt	(5,378)	(108)	(3,461)	(21,995)	(240)
Transfers in from other funds	-	-	-	11,743	470
Capital contributions	-	9,042	-	15,287	249
Net cash provided by (used for) capital and related financing activities	(9,565)	12,023	(8,778)	(52,191)	(4,473)
Cash flows from investing activities:					
Proceeds from sale of investments	-	-	-	1,232	-
Collection of interest	691	86	565	3,998	1,741
Net unrealized investments gains (losses)	77	-	(95)	(395)	-
Loan repayments	6	-	-	910	11,177
Change in securities lending obligation	-	-	989	(1,905)	20,234
Net cash provided by (used for) investing activities	774	86	1,459	3,840	33,152
Net increase (decrease) in cash and cash equivalents	3,298	23,515	(294)	3,688	23,736
Cash and cash equivalents, beginning of year	14,689	6,440	26,797	173,536	31,892
Cash and cash equivalents, end of year	\$ 17,987	\$ 29,955	\$ 26,503	\$ 177,224	\$ 55,628

The notes to the financial statements are an integral part of this statement.

(continued)

City of Sacramento
Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Storm Drainage Fund	Solid Waste Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 7,465	\$ 3,153	\$ (2,091)	\$ 4,500
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	9,916	3,227	9,424	1,269
Changes in assets and liabilities:				
Accounts receivable	160	(565)	(90)	(304)
Intergovernmental receivables	13	12	11	22
Due from other funds	-	-	-	-
Inventories	196	10	24	-
Prepaid items	-	-	-	9
Due to other funds	-	-	-	-
Accounts payable and accrued expenses	(1,464)	(935)	200	592
Accrued compensated absences	(118)	(9)	52	30
Accrued claims	-	-	-	-
Liability for landfill closure	-	-	-	(760)
Deposits	-	-	-	-
Deferred revenue	-	-	-	8
Net cash provided by (used for) operating activities	<u>\$ 16,168</u>	<u>\$ 4,893</u>	<u>\$ 7,530</u>	<u>\$ 5,366</u>
Noncash investing, capital and financing activities:				
Accreted interest on notes payable	\$ -	\$ -	\$ -	\$ -
Contributions of capital assets, net of accumulated depreciation	\$ 8,838	\$ 11,246	\$ 30	\$ 41
Amortization of bond premium, discount and loss on refunding	\$ 75	\$ -	\$ 113	\$ 7
Amortization of deferred charges	\$ 101	\$ -	\$ 4	\$ 25

(continued)

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2005
(in thousands)

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Community Center Fund	SHRA Enterprise Fund	Other Enterprise Funds	Total	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ (6,158)	\$ (118,850)	\$ 5,651	\$ (106,330)	\$ (6,655)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation expense	2,573	6,245	2,852	35,506	8,589
Changes in assets and liabilities:					
Accounts receivable	295	(300)	(361)	(1,165)	(15)
Intergovernmental receivables	-	-	-	58	-
Due from other funds	-	246	-	246	62
Inventories	-	48	-	278	(238)
Prepaid items	-	(5)	(7)	(3)	-
Due to other funds	-	(204)	-	(204)	-
Accounts payable and accrued expenses	(112)	435	(88)	(1,372)	(1,004)
Accrued compensated absences	21	-	30	6	204
Accrued claims	-	-	-	-	8,121
Liability for landfill closure	-	-	-	(760)	-
Deposits	-	(49)	14	(35)	-
Deferred revenue	142	14	(8)	156	(40)
Net cash provided by (used for) operating activities	\$ (3,239)	\$ (112,420)	\$ 8,083	\$ (73,619)	\$ 9,024
Noncash investing, capital and financing activities:					
Accreted interest on notes payable	\$ -	\$ 1,259	\$ -	\$ 1,259	\$ -
Contributions of capital assets, net of accumulated depreciation	\$ -	\$ 13,916	\$ -	\$ 34,071	\$ 1,021
Amortization of bond premium, discount and loss on refunding	\$ 883	\$ -	\$ 338	\$ 1,416	\$ 6
Amortization of deferred charges	\$ 132	\$ -	\$ 35	\$ 297	\$ 2

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005
(in thousands)

	Pension Trust Fund	Investment Trust Fund	Agency Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 211,619	\$ 28,050	\$ 42,125
Cash and investments held by fiscal agent	-	-	38,184
Receivables, net:			
Accounts	37	-	-
Investment securities sold	16,804	-	-
Interest	2,445	-	55
Total receivables	<u>19,286</u>	<u>-</u>	<u>55</u>
Investments, at fair value:			
U.S. government obligations	26,595	-	-
Corporate bonds	47,472	-	-
Exchange traded funds	29,242	-	-
Equity securities	103,263	-	-
Municipal bonds	6,315	-	-
Mortgage loans	37,081	-	-
Total investments	<u>249,968</u>	<u>-</u>	<u>-</u>
Total assets	<u>480,873</u>	<u>28,050</u>	<u>80,364</u>
<u>LIABILITIES</u>			
Securities lending obligations	90,638	-	-
Accounts payable	2,100	-	-
Payable for investment securities purchased	14,362	-	-
Due to bondholders	-	-	80,354
Deposits	-	-	10
Total liabilities	<u>107,100</u>	<u>-</u>	<u>\$ 80,364</u>
<u>NET ASSETS</u>			
Held in trust for pension benefits and other purposes	<u>\$ 373,773</u>	<u>\$ 28,050</u>	

The notes to the financial statements are an integral part of this statement.

City of Sacramento
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

For the Fiscal Year Ended June 30, 2005
(in thousands)

	Pension Trust Fund	Investment Trust Fund
Additions:		
Contributions:		
Employees	\$ 809	\$ -
Investment earnings:		
Net appreciation in fair value of investments	(5,698)	(100)
Interest	12,233	753
Dividends	3,029	-
Total investment earnings	9,564	653
Less investment expenses:		
Banking, interest, and fiscal agent expenses	1,502	41
Professional services	1,213	-
Net investment expenses	2,715	41
Net investment income	6,849	612
Deposits by pool participants	-	27,681
Total additions	7,658	28,293
Deductions:		
Benefits	27,348	-
Refunds of contributions	176	-
Withdrawals by pool participants	-	21,521
Total deductions	27,524	21,521
Change in net assets	(19,866)	6,772
Net assets, beginning of year	393,639	21,278
Net assets, end of year	<u>\$ 373,773</u>	<u>\$ 28,050</u>

The notes to the financial statements are an integral part of this statement.

THIS PAGE INTENTIONALLY LEFT BLANK

City of Sacramento
Combining Statement of Net Assets
Component Units

June 30, 2005
(in thousands)

	<u>Business-type Activities</u>		<u>Total Component Units</u>
	<u>Sacramento Hotel Corporation</u>	<u>Sacramento Regional Arts Facilities Financing Authority</u>	
<u>ASSETS</u>			
Cash and investments	\$ 226	\$ -	\$ 226
Receivables, net	2,402	14,855	17,257
Inventories	119	-	119
Prepaid items	84	-	84
Restricted cash and investments	18,352	1,161	19,513
Deferred charges	2,791	669	3,460
Land and other capital assets not being depreciated	4,954	-	4,954
Other capital assets, net of depreciation	70,722	-	70,722
Total assets	<u>99,650</u>	<u>16,685</u>	<u>116,335</u>
<u>LIABILITIES</u>			
Accounts payable	7,576	182	7,758
Deferred revenue	5	-	5
Noncurrent liabilities:			
Due within one year	-	330	330
Due in more than one year	99,567	15,785	115,352
Total liabilities	<u>107,148</u>	<u>16,297</u>	<u>123,445</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	(14,704)	-	(14,704)
Restricted for:			
Debt service	4,356	388	4,744
Other	1,339	-	1,339
Unrestricted	1,511	-	1,511
Total net assets (deficit)	<u>\$ (7,498)</u>	<u>\$ 388</u>	<u>\$ (7,110)</u>

The notes to the financial statement are an integral part of this statement

City of Sacramento
Combining Statement of Activities
Component Units
 For the Fiscal Year Ended June 30, 2005
 (in thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Business-type Activities:					
Sacramento Hotel Corporation					
Hotel operations	\$ 35,510	\$ 32,197	\$ -	\$ -	\$ (3,313)
Sacramento Regional Arts Facilities Financing Authority					
Arts facilities financing	<u>757</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(757)</u>
Total component units	<u>\$ 36,267</u>	<u>\$ 32,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,070)</u>

The notes to the financial statement are an integral part of this statement

City of Sacramento
Combining Statement of Activities
Component Units

For the Fiscal Year Ended June 30, 2005
(in thousands)

	<u>Sacramento Hotel Corporation</u>	<u>Sacramento Regional Arts Facilities Financing Authority</u>	<u>Total Component Units</u>
Change in net assets:			
Net revenue (expense)	\$ (3,313)	\$ (757)	\$ (4,070)
General revenues:			
Investment earnings	<u>566</u>	<u>739</u>	<u>1,305</u>
Change in net assets	(2,747)	(18)	(2,765)
Net assets (deficit), beginning of year	<u>(4,751)</u>	<u>406</u>	<u>(4,345)</u>
Net assets (deficit), end of year	<u>\$ (7,498)</u>	<u>\$ 388</u>	<u>\$ (7,110)</u>

The notes to the financial statements are an integral part of this statement.

THIS PAGE INTENTIONALLY LEFT BLANK

Notes to the Financial Statements

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DEFINITION OF REPORTING ENTITY

The City of Sacramento (City) was incorporated in 1849 under the laws of the State of California. Sacramento is a charter city and operates under a Council-Manager form of government. The City provides a full range of municipal services including police, fire, water, sewer, storm drainage, solid waste, construction and maintenance of streets and highways, planning and zoning, parks, recreation and cultural activities, low income and elderly housing and assistance, social services, redevelopment and general administrative support.

These basic financial statements present the financial status of the City and its component units, which are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. Component unit financial statements may be obtained from the City's Department of Finance.

Blended component units

Although the following component units are legally separate from the City, they are reported on a blended basis as part of the primary government because their boards are comprised of all City Council members or they are, in substance, part of the City's operations.

Sacramento Housing and Redevelopment Agency (SHRA) - a joint powers agency responsible for the development and implementation of housing, redevelopment and community service programs and activities for the City and County of Sacramento. The City Council serves as the governing board for all City activities reported by SHRA. The assets, liabilities and operations of the County of Sacramento in SHRA have not been eliminated from these financial statements because the County of Sacramento's involvement is primarily that of a passive sponsor which avails itself of federal funding sources.

Sacramento City Employees' Retirement System (SCERS) - a single employer pension plan sponsored and administered by the City for City employees, except public safety employees, hired before January 29, 1977 and public safety employees who retired with SCERS benefits before December 30, 1989. Under provisions of the City Charter, SCERS is managed by the Administration, Investment and Fiscal Management Board (the Board), consisting of the City Manager, City Director of Finance, City Treasurer and two residents of the City appointed by the City Council. Duties of the Board include the adoption of investment standards for SCERS, the establishment of contribution rates, the administration and investment of funds, the selection of investment advisors, the crediting of interest and any action relating to the fiscal management of SCERS.

Sacramento City Financing Authority (SCFA) - a joint exercise of powers entity created by the City and Sacramento City Redevelopment Agency for the purpose of acting as nominal lessor for City financing. The SCFA is administered by a governing board consisting of the members of the City Council.

Discretely presented component units

The following component units are reported in a separate column in the government-wide financial statements to emphasize their legal separation from the City.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sacramento Hotel Corporation (Hotel) – a nonprofit public benefit corporation established to facilitate the financing, development, construction, and operation of a full-service hotel in downtown Sacramento to support business expansion of the City's Convention Center. City Council appoints the board of directors, approves the annual budget, and approves amendments to the articles of incorporation and bylaws. Upon future dissolution, any remaining assets revert to the City. The Hotel is presented as a business-type activity in the component units column of the government-wide statements.

Sacramento Regional Arts Facilities Financing Authority (SRAFFA) - a joint powers agency between the City and County of Sacramento created for the purpose of financing the expansion of the theater complex located on H Street. The authority is governed by a board of five directors whose members are three designees of the City Council and two designees of the County Board of Supervisors. The members of the board serve at the pleasure of their respective legislative bodies and may be removed at will. Upon future dissolution, any remaining assets revert to the City and County of Sacramento in such manner as determined by the board. The SRAFFA is presented as a business-type activity in the component units column of the government-wide statements.

ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

Implementation of GASB Statement No. 40

Effective July 1, 2004 the City implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3). This statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) interest rate risk and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. The provisions of this new standard have been incorporated into Note 2.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the City is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are allocated to expenses and capital assets of governmental and business-type activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounts of the City are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary trust fund financial statements. Agency funds, included in the fiduciary fund financial statements, are also reported using the accrual basis of accounting, however they are not reported using a measurement focus because only assets and liabilities are presented.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenue, special assessments, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The SHRA Capital Projects Fund accounts for SHRA financial resources to be used for the acquisition or construction of capital facilities, primarily low and moderate income housing projects.

The SHRA Special Revenue Fund accounts for the proceeds of specific SHRA federal, state and local revenue sources that are legally restricted for expenditures for specific purposes, including housing and community development.

The 1997 Lease Revenue Bond Fund accounts for the loan receivable, debt service activities and related transactions concerning the acquisition and lease back of Arco Arena.

The Transportation and Development Fund accounts for the receipts and disbursements of taxes, fees, and fines, which are used to construct and maintain streets, bridges, bikeways, traffic safety and community development.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major enterprise funds:

The Water Fund accounts for the operation and maintenance of the City's water treatment and water transmission and distribution systems.

The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

The Storm Drainage Fund accounts for the operation and maintenance of the City's surface drainage system.

The Solid Waste Fund accounts for the collection and disposal of refuse throughout the City and for landfill closure.

The Community Center Fund accounts for the operation and maintenance of the City's Community Center, including the theater and exhibit halls.

The SHRA Enterprise Fund accounts for various U.S. Department of Housing and Urban Development subsidy programs which provide resources to house low-income households within the City and County of Sacramento.

Additionally, the City reports the following fund types:

Internal service funds account for the financing of fleet and risk management services to other departments on a cost reimbursement basis.

The Pension Trust Fund accounts for the assets held on behalf of the Sacramento City Employees' Retirement System (SCERS) for pension benefit payments to qualified employees.

The Investment Trust Fund accounts for the net assets held on behalf of investors in the City's investment pool who are not part of the City's financial reporting entity.

Agency funds account for assets held by the City as an agent for bonded assessment districts. In addition, SHRA uses an agency fund to account for assets held as an agent for a private organization.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, including fees, fines and forfeitures, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Program revenues also include earnings on investments that are legally restricted for a specific program. Internally dedicated resources are reported as general revenues rather than as program revenue. Likewise, general revenues include all taxes.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgetary Data

The City Manager submits a proposed budget to the City Council no later than 60 days prior to the commencement of the fiscal year. The City Council holds public hearings, modifies the City Manager's recommendations, and adopts a final budget in June. The budget adoption resolution specifies that budgets will be controlled at the department level (e.g., police, fire, transportation, etc.) by fund.

Annual budgets are adopted for the General Fund, the SHRA and Transportation and Development major special revenue funds, and certain nonmajor special revenue funds. Annual budgets are also adopted for the enterprise and internal service funds, although they are not legally required. Multi-year project budgets are adopted for the General Fund, capital projects funds and certain special revenue funds where appropriations remain authorized for each project until closed, irrespective of fiscal year. Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders and executory contracts are treated as expenditures in the year of commitment. Budgets are modified throughout the year when the tax base changes, fees are modified, new revenue sources are identified, or programs are changed. The City Manager is authorized to administratively amend the budget during the year for transactions up to \$100,000 without City Council approval. All other appropriation adjustments during the year require City Council approval. Significant appropriation adjustments were not required during the year ended June 30, 2005. Unencumbered annual budget appropriations lapse at fiscal year-end. Multi-year budget appropriations are automatically carried over into the next fiscal year.

Financial Statement Elements

Investments - City investments are recorded at fair value, except guaranteed investment contracts and real estate mortgages, which are recorded at cost. The estimated fair value of all investments is the quoted market price. Certain bond covenants require that interest earned on assessment district construction proceeds, which are reported in other governmental funds, be credited to reserve accounts, which are reported in Agency funds. Interest earned on all other cash and investments is credited to the fund which holds the investment.

Property Taxes - Article XIII of the California Constitution (Proposition 13) limits ad valorem taxes on real property to one percent of value plus taxes necessary to pay indebtedness approved by voters prior to July 1, 1978. The Article also established the 1975/76 assessed valuation as the base and limits annual increases to the cost of living, not to exceed two percent, for each year thereafter. Property may also be reassessed to full market value after a sale, transfer of ownership, or completion of new construction. The State is prohibited under the Article from imposing new ad valorem, sales, or transactions taxes on real property. Local government may impose special taxes (except on real property) with the approval of two-thirds of the qualified electors.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes are levied annually by the Sacramento County Assessor on July 1 and become a lien on property on January 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively.

The City participates in an alternative method of distribution of property tax levies and assessments known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property, assessment and supplemental property taxes on an accrual basis resulting in full payment to cities each fiscal year. Any subsequent delinquent payments and related penalties and interest during a fiscal year will revert to Sacramento County. The Teeter Plan payment, which includes 95% of the outstanding accumulated delinquency, is included in property tax revenue. Under the Teeter Plan code, 5% of the delinquency must remain with the County as a reserve for Teeter Plan funding.

Receivables and payables – Property, sales, use, and utility user taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year end. Federal and State grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide statement of net assets. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and available.

Long-term loans receivable reported in the governmental fund statements are recorded with offsetting deferred revenue or reservation of fund balance because the resources are not available for appropriation. Long-term loans receivable reported in the proprietary fund statements, as well as long-term loans reported in the government-wide statements, are not offset by deferred revenue. Unbilled utility revenue earned is recognized as revenue and accounts receivable in the enterprise funds.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a reservation of fund balance for noncurrent assets in governmental funds to indicate that they do not constitute resources available for appropriation.

Inventories and prepaid items - General fund inventories are recorded as expenditures when consumed rather than when purchased. These inventories are valued at average cost using the first-in, first-out method. Inventories in the proprietary funds are stated at the lower of average cost or market and consist of expendable materials and supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories and prepaid items, as reported in the fund financial statements, are offset by a reservation of fund balance for noncurrent assets in governmental funds to indicate that they do not constitute resources available for appropriation.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets - Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the statements of net assets and balance sheets because their use is limited by applicable bond covenants. In addition, funds have been restricted for replacement of assets and tenant security deposits.

Capital Assets – Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded at the lower of actual historical cost or fair market value (as of the date donated for contributed assets) although for certain older assets estimated historical costs are used.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	Primarily 15 to 70 years
Transmission and distribution systems	Primarily 15 to 100 years
Machinery, vehicles and equipment	Primarily 5 to 30 years
Roadway network	Primarily 20 to 70 years
Street light network	Primarily 40 to 50 years
Parks and park improvements	Primarily 30 years

It is the policy of the City to capitalize all land, buildings and improvements, equipment and infrastructure assets, except assets costing less than \$20,000, unless a federal funding source was utilized. All capital assets financed by a federal funding source are capitalized, unless the cost of the asset was less than \$5,000. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures and changes in fund balances as proceeds from sale.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period. The total interest expense incurred by the City during the current fiscal year was \$56,987,000.

The Crocker Art Museum's collection of works of art, held in trust by the City, has not been reported in these financial statements. The City has elected not to report the collection because it meets the three criteria for waiving capitalization: the collection is held for reasons other than financial gain; the collection is protected, kept unencumbered, cared for, and preserved; and the collection is subject to an organizational policy requiring that the proceeds from sales of collection items be used to acquire other items for the collection.

Compensated Absences - Employees accrue vacation, sick, holiday, and compensatory time off benefits. An employee may accumulate vacation time equal to the amount which can be earned in a two-year period. Sick pay vests and may be accumulated until retirement. An employee with sixty or more days of accumulated sick leave at the end of a calendar year may elect to receive a 25% payment of any unused sick leave earned in the previous year. The amount of sick leave paid is deducted from the employee's total accumulation. Upon termination or retirement, an employee may receive a cash payment of one-third of the vested accumulated sick leave.

All vacation pay is accrued when earned in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue – Deferred revenue in governmental funds arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenue also arises when resources are received by the City before it has a legal claim to them (i.e., when grant monies are received prior to the incurrence of qualifying expenditures).

Long-term Obligations – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Gains and losses on debt refunding are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt using the straight-line method. Bonds payable are reported net of bond premium or discount and net of gains and losses on debt refunding. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Encumbrances - Encumbrance accounting is used during the year for budgetary control. Encumbrances outstanding at year-end do not constitute expenditures or liabilities, but rather, a reservation of fund balance. The City honors contracts represented by year-end encumbrances and the appropriations carried over provide authority to complete these transactions in future years.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative plans by City management for future use of financial resources.

Fiscal Years - The fiscal year of the City begins on July 1 and ends on June 30. The fiscal year of two of the City’s component units, SHRA and the Sacramento Hotel Corporation, begin on January 1 and end on December 31. The December 31, 2004 financial statements of these entities are included in this report. As a result of these differing fiscal years, advances made between the City and SHRA do not offset (see reconciliation in the Interfund Transactions footnote – Note 11).

Statement of Cash Flows - For purposes of the statement of cash flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash. The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 2005 (in thousands):

	Government-wide Statement of Net Assets		Statement of Fiduciary Net Assets	Total
	Primary Government	Component Units		
Cash and investments	\$ 781,272	\$ 226	\$ 569,946	\$ 1,351,444
Restricted cash and investments	101,624	19,513	-	121,137
Total	<u>\$ 882,896</u>	<u>\$ 19,739</u>	<u>\$ 569,946</u>	<u>\$ 1,472,581</u>

Under the authority of the Sacramento City Charter, the Sacramento City Council, by Resolution 2005-405, has delegated its investment authority to the City Treasurer. The City Treasurer manages the City's investments in accordance with the City's Investment Policy, which was last reaffirmed by the City Council on May 31, 2005. The City's investment policy requires compliance with the California Government Code for investments of public funds. The City's investment policy also provides limits on rate anticipation, arbitrage and other swap investments.

SCERS pension trust fund investments are managed pursuant to investment standards adopted by the SCERS Administration, Investment and Fiscal Management Board. Investments of other trust funds are managed pursuant to City Council ordinances and authority granted by various boards and commissions.

A portion of SHRA investments are managed by the County of Sacramento. The County invests funds pursuant to the California Government Code.

The table below identifies the investment types that are authorized for public funds of the City by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Rating
Local Agency Bonds	5 years	None	None	A1/P1
US Treasury Obligations	5 years	None	None	
US Agency Securities	5 years	None	None	
Bankers Acceptance	180 days	40%	30%	
Commercial Paper	270 days	25%	10%	
Negotiable Certificates of Deposit	5 years	30%	None	
Repurchase Agreements	1 year	None	None	
Reverse Repurchase and Securities Lending agreements	92 days	20% of base value	None	
Medium Term Notes	5 years	30%	None	
Mutual Funds as permitted by the government code	N/A	20%	10%	
Money Market Mutual Funds	N/A	20%	10%	AA
Collateralized Bank Deposits	5 years	None	None	
Mortgage Pass-through Securities	5 years	20%	None	
Time Deposits	5 years	None	None	
County Pooled Investment	N/A	None	None	
Local Agency Investment Fund	N/A	None	None	
Joint Powers Authority Pool	N/A	None	None	

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (Continued)

The table above does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, or investments held by the SCERS pension trust fund or other trust funds.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City of Sacramento manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity. The remaining maturity of the City's investments included in the table below is based on the stated maturity dates of the individual investments. Investments in common stock, or in debt securities with remaining maturities longer than five years, are held by the SCERS pension trust fund, other trust funds, or by bond trustees pursuant to debt agreements.

The City's investments by maturity as of June 30, 2005 are as follows (in thousands):

Investment Type	No Maturity	Remaining Maturity in Years			Fair Value
		Under 1	1-5	Over 5	
Asset backed securities	\$ -	\$ -	\$ 8,508	\$ -	\$ 8,508
Bank notes	-	-	27,993	-	27,993
Banker's acceptances	-	5,693	-	-	5,693
Certificates of deposit	-	40,475	23,237	-	63,712
Commercial paper	-	87,909	-	-	87,909
Corporate bonds	-	80,467	121,396	11,236	213,099
County investment pool	-	35,715	-	-	35,715
Deposits	(6,096)	-	-	-	(6,096)
Equities	107,474	-	-	-	107,474
Exchange traded funds	29,242	-	-	-	29,242
Guaranteed investment contracts	-	-	22,654	18,899	41,553
Local Agency Investment Fund (LAIF)	-	25,631	-	-	25,631
Money market mutual fund	-	611	-	-	611
Mortgage loans	-	-	27,853	9,228	37,081
Municipal bonds	-	2,061	4,254	-	6,315
Mutual funds	-	9,624	-	-	9,624
Repurchase agreements	-	79,474	-	-	79,474
State & local government series securities	-	19,419	6,092	-	25,511
U.S. agencies	-	187,454	165,936	2,672	356,062
U.S. Treasury bills	-	7,198	-	-	7,198
U.S. Treasury bonds	-	-	-	269	269
U.S. Treasury notes	-	111,931	145,602	6,112	263,645
U.S. Treasury strips	-	86	86	-	172
	<u>\$ 130,620</u>	<u>\$ 693,748</u>	<u>\$ 553,611</u>	<u>\$48,416</u>	<u>1,426,395</u>
Timing difference for SHRA's participation in City investment pool					<u>26,447</u>
Total primary government					<u>1,452,842</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investment Type	No Maturity	Remaining Maturity in Years			Fair Value
		Under 1	1-5	Over 5	
Component Unit - SRAFFA					
U.S. agencies	\$ -	\$ 1,062	\$ -	\$ -	\$ 1,062
Money market mutual fund	-	99	-	-	99
	<u>\$ -</u>	<u>\$ 1,161</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,161</u>
Component Unit - Hotel					
Guaranteed investment contracts	\$ -	\$ -	\$ -	\$ 9,187	9,187
Deposits	1,103	-	-	-	1,103
Money market mutual fund	-	8,288	-	-	8,288
	<u>\$ 1,103</u>	<u>\$ 8,288</u>	<u>\$ -</u>	<u>\$ 9,187</u>	<u>18,578</u>
Total Cash and Investments					<u>\$ 1,472,581</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

Investments in variable rate securities are investments with terms that provide for the adjustment of interest rates on specified dates (such as the last day of a month or calendar quarter) based on predefined mathematical formulas using benchmark indices (such as CPI or LIBOR). Variable rate securities with coupon multipliers are highly sensitive to interest rate risk. The fair value of such investments can reasonably be expected to be affected at each interest rate reset date.

Investments in callable bonds are investments that, although having clearly defined maturities, allow for the issuer to redeem or call such bonds earlier than their respective maturity dates. The investor must then replace the called bonds with investments that may have lower yield than the original bonds. As a result, the fair value of the callable bonds is highly sensitive to changes in interest rates.

The City's investments, including those held by bond trustees, that are highly sensitive to interest rate fluctuations are as follows (in thousands):

	<u>Fair Value</u>
Federal Home Loan Bank securities that have a maturity date of 4/11/2008 and are callable on 4/11/2006.	\$ 27,076
Federal Home Loan Bank securities that have a maturity date of 11/29/2006 and are callable on 11/29/2005.	4,958
Federal Home Loan Bank securities that have a maturity date of 12/29/2006 and are callable semi-annually from 12/29/2005 to 6/29/2006.	9,763
Federal Home Loan Bank securities that have a maturity date of 8/17/2007 and are callable semi-annually from 8/17/2005 to 2/17/2007.	1,999
Federal Home Loan Bank securities with an initial interest rate of 4% to June 2006, and then the interest rate is reset quarterly based on three-month LIBOR plus 50 basis points. These securities have a maturity date of 6/30/2010 and are callable on 9/30/2005.	4,968
Housing and Urban Development securities that have a maturity date of 8/1/2015 and are callable semi-annually from 8/1/2005 to 2/1/2015.	2,006

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2005, the City's deposits and investments (in thousands), and corresponding credit ratings, are as follows:

Investment Type	S & P	Moody's	Fair Value
Asset backed securities	AAA	Aaa	\$ 8,508
Bank notes	AA	Aa	16,996
	A	Aa	10,997
Banker's acceptance	A1	P1	5,693
Certificates of deposit	A1	P1	30,482
	A	P1	9,992
	AA	Aa	16,491
	A	Aa	6,747
Commercial paper	A1	P1	77,891
	AAA	Aaa	5,012
	A	Aa	5,006
Corporate bonds	AAA	AAA	54,142
	A	A	51,080
	A	AA	5,530
	A	Aa	28,479
	A1	P1	18,114
	AA	Aa	23,545
	AA	AA	13,248
	AAA	Aaa	8,750
	B	B	336
	BB	BAA	7,746
	BBB	BAA	2,129
County investment pool	not rated	not rated	35,715
Deposits	not rated	not rated	(6,096)
Equities (exempt from disclosure)	N/A	N/A	107,474
Exchange traded funds	not rated	not rated	29,242
Guaranteed investment contracts	not rated	not rated	41,553
Local Agency Investment Fund (LAIF)	not rated	not rated	25,631
Money market mutual funds	not rated	not rated	611
Mortgage loans	not rated	not rated	37,081
Municipal bonds	AAA	AAA	6,315
Mutual funds	not rated	not rated	334
	AAA	Aaa	9,290
Repurchase agreements	AAA	AAA	1,500
	A1	P1	2,000
	not rated	not rated	75,974
State & local government series securities	not rated	not rated	25,511
U.S. agencies	AAA	AAA	332,428
	A1	P1	1,496
	AAA	Aaa	19,530
	not rated	not rated	2,608
U.S. Treasury bills (exempt from disclosure)	N/A	N/A	7,198
U.S. Treasury bonds (exempt from disclosure)	N/A	N/A	269
U.S. Treasury notes (exempt from disclosure)	N/A	N/A	263,645
U.S. Treasury strips (exempt from disclosure)	N/A	N/A	172
			<u>1,426,395</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investment Type	S & P	Moody's	Fair Value
Timing difference for SHRA's participation in City investment pool			26,447
Subtotal primary government			1,452,842
Component Unit – SRAFFA			
U. S. agencies	AAA	AAA	1,062
Money market mutual fund	AAA	Aaa	99
			1,161
Component Unit - Hotel			
Guaranteed investment contracts	not rated	not rated	9,187
Deposits	not rated	not rated	1,103
Money market mutual fund	AAA	AAA	8,288
			18,578
Total Cash and Investments			\$ 1,472,581

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total investments at June 30, 2005, were U.S. agency securities issued by the Federal Home Loan Bank totaling \$343,456,000.

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total investments by reporting unit are as follows:

SRAFFA invested \$1,062,000 in Federal Home Loan Mortgage Corporation securities.

The Hotel invested \$9,187,000 in a guaranteed investment contract issued by Westdeutsche Landesbank Girozentrale, that matures on 1/1/2030, and invested \$8,288,000 in money market mutual funds issued by the Bank of New York.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code has provisions for financial institutions that limit custodial credit risk for deposits. Financial institutions are required to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The City's financial institutions also have insurance through the Federal Depository Insurance Corporation (FDIC). The City's investment policy has no additional provisions for limiting custodial credit risk for deposits. At June 30, 2005, the City had \$43,000 of deposits that were uninsured and uncollateralized and thus subject to custodial credit risk. At December 31, 2004, the Hotel had \$1,009,000 of deposits that were uninsured and uncollateralized and thus subject to custodial credit risk.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy have provisions that limit custodial credit risk for investments. Investments loaned for securities lending are limited to 20% of the City's portfolio. Banker's acceptance securities are limited to 40% of the City's portfolio.

As of June 30, 2005, investments were held by the same broker-dealer (counterparty) that was used by the City to purchase the securities:

\$220,201,842	Investments purchased with cash collateral from securities lending transactions
\$ 5,692,481	Banker's acceptances: uninsured, unregistered and held by dealer bank

Securities Lending

The City engages in securities lending transactions, whereby the City has authorized its custodial bank to loan its securities to approved counterparties for collateral (cash or securities) with a simultaneous agreement to return the collateral for the same securities in the future. Such loans are short-term and the City retains the right to sell, without penalty, the original securities in which it has invested. The City's arrangement with the bank requires the bank to indemnify the City for failure of any counterparty to return the securities loaned. The City's investment policy permits securities loans up to 20% of the fair value of the City's portfolio.

Borrowers delivered collateral equal to at least 102% of the market value of the loaned securities. All loans are marked to market daily and if the value of the collateral falls below the minimum margin in aggregate for a borrower, the borrower must either increase the collateral or terminate the loans. There have been no losses as a result of a default. As of June 30, 2005, the average number of days that the loans were outstanding was 1 day and the weighted maturity of the collateral investments was 24 days. At year-end, the City has no credit risk exposure to borrowers because the amounts the City owes the borrowers exceed the amounts the borrowers owe the City.

The securities loaned were U.S. government securities, corporate bonds, and equities. The types of collateral accepted are cash, U.S. government securities and letters of credit. The City cannot pledge or sell collateral securities without a borrower default.

The City lent securities totaling \$215,343,000 and received cash collateral of \$220,202,000. The cash collateral received was then invested as follows as of June 30, 2005 (in thousands):

<u>Securities Lending Investments</u>	<u>Fair Value</u>
Bank notes	\$ 27,993
Certificates of deposit	28,735
Corporate bonds	87,874
Repurchase agreements	75,600
	<u>\$ 220,202</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (Continued)

City Sponsored Investment Pool

As part of the City's total cash and investments portfolio, the City Treasurer manages an investment pool, which includes both internal and external investors. The pool is not registered with the Securities and Exchange Commission as an investment company. The City Treasurer is granted authority for managing the pool by City Charter Section 73 and City Council ordinances and resolutions. Quarterly, the City Treasurer reports investment activity and submits the investment policy to the Council for review and approval.

The fair value of investments is determined monthly. Participants' shares sold and redeemed are determined by the daily cash balance deposited in the pool (the value of its pool shares). The value of the pool shares is based upon amortized cost in day to day operations but is adjusted to the fair value at year-end. The investments are reported at fair value. The value of the shares is supported by the value of the underlying investments. External participants, including various joint powers agencies, comprise 3.8% of pool participation.

The following represents a condensed statement of net assets and changes in net assets for the City Sponsored Investment Pool as of June 30, 2005 (in thousands):

Statement of Net Assets:

Net assets held in trust for all pool participants	<u>\$735,519</u>
Equity of internal pool participants	\$707,469
Equity of external pool participants	<u>28,050</u>
Total equity	<u>\$735,519</u>

Statement of Changes in Net Assets:

Net assets at July 1, 2004	\$813,569
Net change in investments by pool participants	<u>(78,050)</u>
Net assets at June 30, 2005	<u>\$735,519</u>

A summary of the investment classifications as of June 30, 2005 is as follows (in thousands):

	<u>Fair Value</u>	<u>Principal Amount</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>
U.S. government and agency securities	\$ 545,137	\$ 548,277	0-4.37%	7/04-10/08
Commercial paper	62,037	61,998	2.72-3.49	7/04-11/04
Corporate bonds	137,540	137,897	2.0-5.94	11/04-4/07
Certificates of deposit	50,165	50,165	3.01-3.42	7/04-06/07
Repurchase agreements	54,931	54,952	3.14-3.57	7/04
Bank obligations	21,528	21,529	N/A	N/A
Banker's acceptance	5,692	5,691	3.17	7/05
Asset backed securities	4,995	4,995	3.44-3.46	10/06-1/07
Local Agency Investment Fund (LAIF)	7,533	7,533	2.85	N/A
Mutual funds	41	41	2.6	N/A
Deposits	<u>(6,636)</u>	<u>(6,636)</u>	N/A	N/A
Total cash and investments in City sponsored investment pool	<u>\$ 882,963</u>	<u>\$ 886,442</u>		

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (Continued)

Participation In External Investment Pools

The City's investment in the State of California's Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account (PMIA), is \$7,532,856 at June 30, 2005, and SHRA's investment in LAIF is \$18,098,000 at December 31, 2004. At June 30, 2005 a total of \$60,503,473,770 was invested by all public agencies in PMIA, which is managed by the State Treasurer. Of that amount, 97.6% is invested in non-derivative financial products, and 2.4% is invested in derivative financial products. The Local Investment Advisory Board (LAIF Board) has oversight responsibility for LAIF. The LAIF Board consists of five members as designated by state statute. The value of the Pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the City's position in the Pool.

SHRA's investment in the Sacramento County Treasurer Pool (County Pool) is \$35,715,000 at December 31, 2004. The Sacramento County Treasurer manages investments of the County Pool and the County Treasury Oversight Committee is responsible for the regulatory oversight of its pool. The County invests funds pursuant to Sections 53601 et seq. and 53635 et seq. of the California Government Code. The value of the County Pool shares, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of SHRA's position in the County Pool.

NOTE 3 - RECEIVABLES

Receivables as of June 30, 2005, were as follows (in thousands):

	Taxes	Accounts	Loans	Inter-governmental	Interest	Total
Governmental activities						
General Fund	\$ 19,871	\$ 15,595	\$ 1,498	\$ -	\$ 1,033	\$ 37,997
SHRA Capital Projects	-	315	49,578	2,790	-	52,683
SHRA Special Revenue	1,484	358	49,960	3,561	-	55,363
1997 Lease Revenue Bond	-	-	72,290	-	952	73,242
Transportation and Development	-	646	-	1,172	181	1,999
Other governmental funds	6,079	10,373	2,222	44,728	819	64,221
Internal service funds	-	186	-	77	171	434
	<u>\$ 27,434</u>	<u>\$ 27,473</u>	<u>\$ 175,548</u>	<u>\$ 52,328</u>	<u>\$ 3,156</u>	<u>\$ 285,939</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 171,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 171,483</u>
Business-type activities						
Water Fund	\$ -	\$ 5,768	\$ 3,256	\$ 289	\$ 357	\$ 9,670
Sewer Fund	-	5,640	1,944	252	21	7,857
Storm Drainage Fund	-	4,907	5,830	198	282	11,217
Solid Waste Fund	-	7,160	-	376	-	7,536
Community Center Fund	1,799	148	50	-	114	2,111
SHRA Enterprise	-	871	125	2,640	-	3,636
Other enterprise funds	-	1,227	-	-	154	1,381
	<u>\$ 1,799</u>	<u>\$ 25,721</u>	<u>\$ 11,205</u>	<u>\$ 3,755</u>	<u>\$ 928</u>	<u>\$ 43,408</u>
Component Units						
Sacramento Hotel Corporation	\$ -	\$ 2,402	\$ -	\$ -	\$ -	\$ 2,402
Sacramento Regional Arts Facilities Financing Authority	-	-	14,855	-	-	14,855
	<u>\$ -</u>	<u>\$ 2,402</u>	<u>\$ 14,855</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,257</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 3 – RECEIVABLES (Continued)

Included in the above amounts are allowances for doubtful accounts of \$3.4 million.

Under the terms of a SRAFFA facility lease agreement, California Music Theater is obligated to make base rental payments in an amount equal to the debt service requirements of the certificates of participation.

NOTE 4 - CAPITAL ASSETS

Summary

The following is a summary of capital assets as of June 30, 2005 (in thousands):

	Governmental Activities	Business- type Activities	Total Primary Government	Component Units	Total
Capital assets not being depreciated					
Land and improvements	\$ 117,982	\$ 63,129	\$ 181,111	\$ 4,954	\$ 186,065
Construction in progress	250,469	162,146	412,615	-	412,615
	<u>368,451</u>	<u>225,275</u>	<u>593,726</u>	<u>4,954</u>	<u>598,680</u>
Depreciable capital assets					
Buildings and improvements	428,396	526,010	954,406	72,121	1,026,527
Equipment	35,453	28,562	64,015	11,687	75,702
Vehicles	92,434	-	92,434	-	92,434
Transmission and distribution system	-	835,290	835,290	-	835,290
Roadway network	1,204,941	-	1,204,941	-	1,204,941
Street light network	121,751	-	121,751	-	121,751
Park improvements	32,222	-	32,222	-	32,222
	<u>1,915,197</u>	<u>1,389,862</u>	<u>3,305,059</u>	<u>83,808</u>	<u>3,388,867</u>
Less accumulated depreciation for:					
Buildings and improvements	(104,825)	(150,410)	(255,235)	(8,909)	(264,144)
Equipment	(30,216)	(12,550)	(42,766)	(4,177)	(46,943)
Vehicles	(51,906)	-	(51,906)	-	(51,906)
Transmission and distribution system	-	(162,605)	(162,605)	-	(162,605)
Roadway network	(648,039)	-	(648,039)	-	(648,039)
Street light network	(36,657)	-	(36,657)	-	(36,657)
Park improvements	(2,415)	-	(2,415)	-	(2,415)
	<u>(874,058)</u>	<u>(325,565)</u>	<u>(1,199,623)</u>	<u>(13,086)</u>	<u>(1,212,709)</u>
Depreciable capital assets, net	<u>1,041,139</u>	<u>1,064,297</u>	<u>2,105,436</u>	<u>70,722</u>	<u>2,176,158</u>
Total capital assets, net	<u>\$ 1,409,590</u>	<u>\$1,289,572</u>	<u>\$ 2,699,162</u>	<u>\$ 75,676</u>	<u>\$ 2,774,838</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 - CAPITAL ASSETS (Continued)

Governmental Activities

Governmental capital asset activity for the fiscal year ended June 30, 2005 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	\$ 110,385	\$ 10,598	\$ (3,001)	\$ 117,982
Construction in progress	284,772	118,590	(152,893)	250,469
	<u>395,157</u>	<u>129,188</u>	<u>(155,894)</u>	<u>368,451</u>
Depreciable capital assets				
Buildings and improvements	347,451	81,362	(417)	428,396
Equipment	32,971	2,822	(340)	35,453
Vehicles	87,681	8,995	(4,242)	92,434
Roadway network	1,177,166	45,932	(18,157)	1,204,941
Streetlight network	113,161	8,590	-	121,751
Park improvements	18,164	14,058	-	32,222
	<u>1,776,594</u>	<u>161,759</u>	<u>(23,156)</u>	<u>1,915,197</u>
Less accumulated depreciation for:				
Buildings and improvements	(94,305)	(10,634)	114	(104,825)
Equipment	(29,077)	(1,446)	307	(30,216)
Vehicles	(45,463)	(10,394)	3,951	(51,906)
Roadway network	(619,990)	(46,206)	18,157	(648,039)
Streetlight network	(34,242)	(2,415)	-	(36,657)
Park improvements	(1,576)	(839)	-	(2,415)
	<u>(824,653)</u>	<u>(71,934)</u>	<u>22,529</u>	<u>(874,058)</u>
Depreciable capital assets, net	<u>951,941</u>	<u>89,825</u>	<u>(627)</u>	<u>1,041,139</u>
Governmental activities capital assets, net	<u>\$ 1,347,098</u>	<u>\$ 219,013</u>	<u>\$ (156,521)</u>	<u>\$ 1,409,590</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 1,692
Police	1,473
Fire	553
General services	3,383
Transportation	48,734
Convention, culture and leisure	1,756
Parks and recreation	2,635
Development services	108
Housing and redevelopment	283
Library	554
Nondepartmental	123
Internal service fund capital assets charged to functions based on usage	<u>8,589</u>
Total governmental activities depreciation expense	69,883
Accumulated depreciation transferred to governmental activities	<u>2,051</u>
Total increases to governmental activities accumulated depreciation	<u>\$ 71,934</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 - CAPITAL ASSETS (Continued)

Business-type Activities

Business-type capital asset activity for the fiscal year ended June 30, 2005 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	\$ 61,768	\$ 2,578	\$ (1,217)	\$ 63,129
Construction in progress	287,504	92,929	(218,287)	162,146
	<u>349,272</u>	<u>95,507</u>	<u>(219,504)</u>	<u>225,275</u>
Depreciable capital assets				
Buildings and improvements	514,599	19,456	(8,045)	526,010
Equipment	27,007	3,612	(2,057)	28,562
Vehicles	2,176	-	(2,176)	-
Transmission and distribution system	615,787	219,503	-	835,290
	<u>1,159,569</u>	<u>242,571</u>	<u>(12,278)</u>	<u>1,389,862</u>
Less accumulated depreciation for:				
Buildings and improvements	(137,406)	(13,628)	624	(150,410)
Equipment	(13,021)	(1,479)	1,950	(12,550)
Vehicles	(2,051)	-	2,051	-
Transmission and distribution system	(142,206)	(20,399)	-	(162,605)
	<u>(294,684)</u>	<u>(35,506)</u>	<u>4,625</u>	<u>(325,565)</u>
Depreciable capital assets, net	<u>864,885</u>	<u>207,065</u>	<u>(7,653)</u>	<u>1,064,297</u>
Business-type activities capital assets, net	<u>\$1,214,157</u>	<u>\$ 302,572</u>	<u>\$ (227,157)</u>	<u>\$ 1,289,572</u>

Depreciation expense was charged to functions as follows:

Business-type activities:	
Water	\$ 9,916
Sewer	3,227
Storm drainage	9,424
Solid waste	1,269
Community center	2,573
Parking	1,815
Golf	607
Child development	52
Marina	378
Housing and redevelopment	6,245
Total business-type activities depreciation expense	<u>\$ 35,506</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 - CAPITAL ASSETS (Continued)

Component Units

Component unit capital asset activity for the fiscal year ended June 30, 2005 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and improvements	\$ 4,954	\$ -	\$ -	\$ 4,954
Depreciable capital assets				
Buildings and improvements	72,063	58	-	72,121
Equipment	11,591	96	-	11,687
	<u>83,654</u>	<u>154</u>	<u>-</u>	<u>83,808</u>
Less accumulated depreciation for:				
Buildings and improvements	(6,474)	(2,435)	-	(8,909)
Equipment	(3,012)	(1,165)	-	(4,177)
	<u>(9,486)</u>	<u>(3,600)</u>	<u>-</u>	<u>(13,086)</u>
Depreciable capital assets, net	<u>74,168</u>	<u>(3,446)</u>	<u>-</u>	<u>70,722</u>
Component unit activities capital assets, net	<u>\$ 79,122</u>	<u>\$ (3,446)</u>	<u>\$ -</u>	<u>\$ 75,676</u>

Depreciation expense was charged to functions as follows:

Component Units:

Sacramento Hotel Corporation	<u>\$ 3,600</u>
Total component units depreciation expense	<u>\$ 3,600</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 - PAYABLES

Payables as of June 30, 2005, were as follows (in thousands):

	Vendors	Salaries and Benefits	Interest	Deposits	Total
Governmental activities					
General Fund	\$ 13,663	\$ 16,643	\$ -	\$ 298	\$ 30,604
SHRA Capital Projects Fund	1,553	-	-	227	1,780
SHRA Special Revenue Fund	4,094	-	-	1,363	5,457
Transportation and Development Fund	1,957	-	-	710	2,667
Other governmental funds	16,996	159	4,247	954	22,356
Internal service funds	5,111	434	20	-	5,565
Total governmental activities	\$ 43,374	\$ 17,236	\$ 4,267	\$ 3,552	\$ 68,429
Business-type activities					
Water Fund	\$ 3,340	\$ 942	\$ 827	\$ -	\$ 5,109
Sewer Fund	2,265	432	124	-	2,821
Storm Drainage Fund	807	865	448	-	2,120
Solid Waste Fund	1,423	873	122	-	2,418
Community Center Fund	616	267	1,115	-	1,998
SHRA Enterprise Fund	4,817	-	-	1,073	5,890
Other enterprise funds	1,014	669	632	103	2,418
Total business-type activities	\$ 14,282	\$ 4,048	\$ 3,268	\$ 1,176	\$ 22,774
Component units					
Sacramento Hotel Corporation	\$ 4,664	\$ -	\$ 2,900	\$ 12	\$ 7,576
Sacramento Regional Arts Facilities Financing Authority	-	-	182	-	182
Total component units	\$ 4,664	\$ -	\$ 3,082	\$ 12	\$ 7,758

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - OPERATING LEASES

City as Lessor

The City leases an office building in downtown Sacramento under a cancellable operating lease agreement. The building's original cost is \$153.2 million. The carrying value and accumulated depreciation for the building at June 30, 2005 are \$139.8 million and \$13.4 million, respectively.

City as Lessee

The City is obligated under various operating leases for the use of land, buildings, office space and equipment. Lease expenditures, primarily for governmental funds, for the fiscal year ended June 30, 2005 were \$5.5 million. Future minimum lease payments required by noncancellable lease agreements that have initial lease terms in excess of one year are as follows (in thousands):

<u>Fiscal Year Ending June 30,</u>	<u>Balance</u>
2006	\$ 2,234
2007	1,164
2008	1,077
2009	825
2010	259
2011-2015	<u>150</u>
Total future minimum lease payments	<u>\$ 5,709</u>

NOTE 7 – LONG-TERM LIABILITIES

Activity

The following is a summary of changes in long-term liabilities. Certain long-term liabilities provide financing to both governmental and business-type activities. Balances and activity are reported for the City's fiscal year ended June 30, 2005 and for the SHRA and Hotel component units' fiscal years ended December 31, 2004 (in thousands):

GOVERNMENTAL ACTIVITIES	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Revenue and other bonds:					
1991 Marks-Roos Revenue Bonds	\$ 3,905	\$ -	\$ (1,220)	\$ 2,685	\$ 1,300
1993 Refunded Revenue Bonds, Series A	11,845	-	(451)	11,394	472
1993 Refunded Revenue Bonds, Series B	33,825	-	(1,300)	32,525	1,362
1995 Gas Tax Revenue Bonds, Series A	6,575	-	(1,165)	5,410	1,235
1996 Lighting and Landscaping Bonds	5,460	-	(305)	5,155	320
1997 Lease Revenue Bonds	72,710	-	(420)	72,290	615
1999 CFD No. 2 Revenue Bonds, Series A	2,740	-	(55)	2,685	60
1999 Capital Improvement Revenue Bonds	39,500	-	(1,155)	38,345	1,260
2000 Capital Improvement Revenue Bonds	15,810	-	(310)	15,500	325
2002 Capital Improvement Revenue Bonds	156,455	-	(5,775)	150,680	5,980
2002 Refunding Revenue Bonds	22,228	-	-	22,228	2,387
2003 Capital Improvement Revenue Bonds	68,470	-	(645)	67,825	1,060
Subtotal, revenue and other bonds	<u>\$ 439,523</u>	<u>\$ -</u>	<u>\$ (12,801)</u>	<u>\$ 426,722</u>	<u>\$ 16,376</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Activity (Continued)

GOVERNMENTAL ACTIVITIES (Continued)	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Tax allocation bonds:					
1993 Downtown TARBS	\$ 16,936	\$ -	\$ (663)	\$ 16,273	\$ 620
1998 Downtown TAB	10,960	-	(630)	10,330	765
1998 Downtown TABS – Refunding	50,135	-	(815)	49,320	1,290
2000 Downtown TAB – Refunding	11,690	-	(3,410)	8,280	3,565
2003 Alkali Flat TAB	7,705	-	(295)	7,410	295
2003 Del Paso Heights Tab	6,066	-	-	6,066	-
2003 Mather TAB (Tax)	5,758	-	(110)	5,648	83
2003 Mather TAB (TE)	23,669	-	(483)	23,186	442
2003 McClellan TAB (Tax)	2,587	-	(50)	2,537	37
2003 McClellan TAB (TE)	3,961	-	(82)	3,879	73
2003 North Sacramento TAB	5,175	-	(75)	5,100	60
Subtotal, tax allocation bonds	144,642	-	(6,613)	138,029	7,230
Certificates of participation:					
Other Lease Financing	820	-	(496)	324	219
Notes payable:					
City:					
State Department of Boating & Waterways	1,101	-	(53)	1,048	55
NN CFD 9701 Drainage Facilities	523	27	-	550	550
SHRA:					
City B 92-MC-06-0003A	70	-	(70)	-	-
City B-95-MC-06-0003A	2,300	-	(1,100)	1,200	1,200
City B-97-MC-06-0003	1,920	-	(100)	1,820	100
City B-97-MC-06-0003	2,955	-	(85)	2,870	85
3% CHFA Deferred Note	2,000	-	-	2,000	-
County B-00-UC-06-0005	550	-	(90)	460	100
County B-01-UC-06-0005	250	-	-	250	24
CHFA – Phoenix Park	1,000	-	-	1,000	-
County of Sacramento – Auburn Blvd.	300	-	(150)	150	-
Mather CIEDB	227	972	(86)	1,113	89
McClellan CIEDB	808	1,800	(129)	2,479	134
CHFA – Phoenix Park	1,500	-	-	1,500	-
Subtotal, notes payable	\$ 15,504	\$ 2,799	\$ (1,863)	\$ 16,440	\$ 2,337

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Activity (Continued)

GOVERNMENTAL ACTIVITIES (Continued)	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Capital lease obligations:					
Plaza building	\$ 1,093	\$ -	\$ (186)	\$ 907	\$ 203
IBM equipment	1,363	-	(258)	1,105	265
Parking meters	-	2,100	(1,563)	537	119
Subtotal, capital lease obligations	<u>2,456</u>	<u>2,100</u>	<u>(2,007)</u>	<u>2,549</u>	<u>587</u>
Less deferred amounts:					
For issuance discounts	(1,355)	-	46	(1,309)	(47)
For issuance premiums	2,573	-	(283)	2,290	283
Gain/loss on refunding	(786)	-	98	(688)	(98)
Subtotal deferred amounts	<u>432</u>	<u>-</u>	<u>(139)</u>	<u>293</u>	<u>138</u>
Subtotal, debt governmental activities	<u>603,377</u>	<u>4,899</u>	<u>(23,919)</u>	<u>584,357</u>	<u>26,887</u>
Other long-term liabilities:					
Accrued claims	59,496	23,298	(15,205)	67,589	22,040
Compensated absences	34,614	29,611	(25,898)	38,327	4,884
Financing plan fee credits:					
North Natomas	27,328	10,046	(7,884)	29,490	8,794
Jacinto Creek	1,865	38	(417)	1,486	300
Subtotal, other long-term liabilities	<u>123,303</u>	<u>62,993</u>	<u>(49,404)</u>	<u>136,892</u>	<u>36,018</u>
Total, governmental activities	<u>\$ 726,680</u>	<u>\$ 67,892</u>	<u>\$ (73,323)</u>	<u>\$ 721,249</u>	<u>\$ 62,905</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Activity (Continued)

BUSINESS-TYPE ACTIVITIES	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Revenue and other bonds:					
1993 Refunded Revenue Bonds, Series A	\$ 90,795	\$ -	\$ (3,454)	\$ 87,341	\$ 3,618
1993 Refunded Revenue Bonds, Series B	36,945	-	(1,420)	35,525	1,488
1999 Capital Improvement Revenue Bonds	26,675	-	(510)	26,165	530
2000 Capital Improvement Revenue Bonds	22,785	-	(450)	22,335	470
2001A Capital Improvement Revenue Bonds	200,840	-	(3,145)	197,695	3,334
2002 Refunding Revenue Bonds	15,612	-	-	15,612	1,687
Phoenix Park II Demand Bonds	-	23,919	-	23,919	-
Subtotal, revenue and other bonds	393,652	23,919	(8,979)	408,592	11,127
Certificates of participation:					
Delivery Order #14	43	-	(28)	15	15
Subtotal, certificates of participation	43	-	(28)	15	15
Notes payable:					
1985 Marina Phase I	1,803	-	(26)	1,777	27
1985 Marina Phase II	2,702	-	(35)	2,667	37
1985 Marina Phase III	1,345	-	(65)	1,280	68
1985 Marina Phase IV	861	-	(38)	823	39
State Water Resources Control Board	1,923	-	(116)	1,807	119
State Water Resources Control Board	33,270	-	(1,635)	31,635	1,671
State Water Resources Control Board	4,432	-	(227)	4,205	233
State Water Resources Control Board	2,244	-	(106)	2,138	109
State Water Resources Control Board	5,401	-	(257)	5,144	263
California Department of Education	160	200	-	360	60
San Jose/Broadway	612	-	(19)	593	20
Larchmont/Wildflower	160	-	(25)	135	28
Riverview – October 1988	1,353	28	-	1,381	-
Norwood – May 1992	1,980	46	-	2,026	-
Savings Association Mortgage Company	311	-	(8)	303	10
Shasta Partnership (HUD)	2,753	77	-	2,830	-
Phoenix Park I – Citibank	-	14,839	-	14,839	-
Phoenix Park I – Union Safe Deposit Bank	-	1,000	-	1,000	-
Bank of America Note	6,000	-	(6,000)	-	-
Subtotal, notes payable	67,310	16,190	(8,557)	74,943	2,684
Capital lease obligations:					
Recycle Containers #1	-	580	(54)	526	111
Recycle Containers #2	-	620	-	620	116
Subtotal, capital lease obligations	-	1,200	(54)	1,146	227
Less deferred amounts:					
For issuance discounts	(3,501)	-	151	(3,350)	(151)
For issuance premiums	598	-	(75)	523	75
Gain/loss on refunding	(9,664)	-	1,340	(8,324)	(1,338)
Subtotal, deferred amounts	(12,567)	-	1,416	(11,151)	(1,414)
Subtotal, debt business-type activities	448,438	41,309	(16,202)	473,545	12,639
Other long-term liabilities:					
Compensated absences	7,171	5,424	(5,693)	6,902	393
Liability for landfill closure	15,950	-	(760)	15,190	760
Subtotal, other long-term liabilities	23,121	5,424	(6,453)	22,092	1,153
Total business-type activities	\$ 471,559	\$ 46,733	\$ (22,655)	\$ 495,637	\$ 13,792

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Activity (Continued)

COMPONENT UNITS	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
1999 Hotel Senior Revenue Bonds, Series A	\$ 92,800	\$ -	\$ -	\$ 92,800	\$ -
1999 Hotel Revenue Bonds, Series B	10,770	-	-	10,770	-
Sacramento Regional Arts, Series 2002 COPS	16,580	-	(325)	16,255	335
Subtotal, component units	120,150	-	(325)	119,825	335
Less deferred amounts:					
For issuance discounts	(929)	-	35	(894)	(5)
For unaccreted interest	(4,011)	762	-	(3,249)	-
Subtotal, deferred amounts	(4,940)	762	35	(4,143)	(5)
Total component units	115,210	762	(290)	115,682	330
Total, long-term liabilities	\$1,313,449	\$ 115,387	\$ (96,268)	\$1,332,568	\$ 77,027

The following is a list of long-term debt issues outstanding at June 30, 2005, including the amount of original debt issuance and a description of the issue.

Revenue and Other Bonds

- \$148,655,000 1991 Marks-Roos Revenue Bonds
Authorized and issued November 1991, for the purpose of financing the acquisition, construction and installation of facilities and equipment for public safety, golf, community center and other authorized uses. In September 1993, \$116,265,000 of these bonds was refunded through the issuance of the 1993 Revenue Bonds Series A. In November 1994, \$20,735,000 of the remaining bonds was retired. The balance is due in annual installments of \$850,000 to \$1,385,000 through November 2006, bearing interest rates of 6.25% to 6.8%.
- \$130,425,000 1993 Refunded Revenue Bonds, Series A
Authorized and issued September 1993, due in annual installments of \$2,186,000 to \$8,875,000 through November 2020, bearing interest rates of 4.5% to 5.13%, for the purpose of refunding the 1986 Public Facilities Certificates of Participation and a portion of the 1991 Marks-Roos Revenue Bonds.
- \$95,480,000 1993 Refunded Revenue Bonds, Series B
Authorized and issued September 1993, due in annual installments of \$1,634,000 to \$6,070,000 through November 2020, bearing interest rates of 4.5% to 5.13%, for the purpose of refunding the 1989 Public Facilities Certificates of Participation.
- \$14,165,000 1995 Gas Tax Revenue Bonds, Series A
Authorized and issued May 1995, due in annual installments of \$890,000 to \$1,475,000 through December 2008, bearing interest rates of 4.7% to 6.75%, for the purpose of financing the acquisition and construction of the 1995 Street Improvement Project.
- \$7,290,000 1996 Lighting and Landscaping Improvement Bonds
Authorized and issued October 1996, due in annual installments of \$235,000 to \$565,000 through fiscal year 2017, bearing interest rates of 4.5% to 5.50%, for the purpose of financing park and lighting maintenance and capital improvements. The debt service on the bonds is payable from special assessments to be levied and collected from property owners.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Revenue and other Bonds (Continued)

- \$73,725,000 1997 Lease Revenue Bonds
Authorized and issued July 1997, due in annual installments of \$125,000 to \$420,000 through July 2007, at which time there will be a mandatory refunding. The bonds were issued to finance the acquisition and lease back of Arco Arena. The bonds were issued as variable rate bonds and a ten-year interest rate hedge has been purchased to mitigate the risk of interest rate fluctuations to a fixed rate of 6.845%. The debt service on the bonds is funded from lease revenue on Arco Arena.
- \$2,910,000 1999 North Natomas Community Facilities District (CFD) No. 2, Revenue Bonds Series A
Authorized and issued January 1999, due in annual installments of \$35,000 to \$255,000 through September 2023, bearing interest rates of 4.8% to 6.25%, for the purpose of financing capital improvements of the North Natomas CFD of benefit to City property.
- \$92,800,000 1999 Hotel Senior Revenue Bonds, Series A
Authorized and issued April 1999, due in annual installments of \$200,000 to \$13,300,000 through January 1, 2030, bearing interest rate of 6.25%, to finance the construction of a convention center hotel.
- \$4,097,827 1999 Hotel Subordinate Revenue Bonds, Series B
Authorized and issued April 1999, due in annual installments of \$1,770,000 to \$1,800,000 commencing January 1, 2006 through January 1, 2011, with an accretion rate of 11%, to finance the construction of a convention center hotel.
- \$71,180,000 1999 Capital Improvement Revenue Bonds
Authorized and issued December 1999, due in annual installments of \$930,000 to \$2,635,000 through December 2029, bearing interest rates of 4.1% to 5.875%, for the purpose of financing the construction of a south area corporation yard and various activities in the Del Paso Heights, Oak Park, North Sacramento, and Richards redevelopment project areas.
- \$40,745,000 2000 Capital Improvement Revenue Bonds
Authorized and issued July 2000, due in annual installments of \$2,288,000 to \$2,816,000 through June 1, 2030, bearing interest rates of 4.05% to 5.60%. Net proceeds of \$40,377,000 were utilized for the purpose of financing the acquisition and construction of an administrative headquarters for the Fire and Police Departments and for construction of an H Street parking facility.
- \$206,780,000 2001A Capital Improvement Revenue Bonds
Authorized and issued April 2001, due in annual installments of \$6,967,000 to \$13,441,000 through December 1, 2032, bearing interest rates of 4.00% of 5.50%. Net proceeds of \$204,416,000 were utilized for the purpose of financing the acquisition and construction of improvements to the City's municipal water system and the construction of improvements to the City's Haggin Oaks golf course facility.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Revenue and other Bonds (Continued)

- \$46,265,000 2002 Refunding Revenue Bonds
Authorized and issued October 31, 2002, with principal and interest due in annual installments of \$5,779,850 to \$5,800,381 through July 1, 2012, bearing interest at rates of 2.75% to 5.0%. Net proceeds of \$47,987,823 were utilized for the purpose of establishing an irrevocable escrow to refund \$27,950,000 principal amount of the City's 1991 Refunding Certificates of Participation (1987 Public Facilities Projects) and \$20,430,000 principal amount of the City's 1991 Refunding Certificates of Participation (Light Rail Transit Project).
- \$160,475,000 2002 Revenue Bonds, Series A
Authorized and issued July 2, 2002, due in annual principal and interest installments of \$4,450,942 to \$7,173,620 through December 1, 2032, bearing interest rates of 3.0% to 5.375%. Net proceeds of \$162,349,682 were utilized for the purpose of financing certain capital projects within the City of Sacramento and to make a loan to the Redevelopment Agency of Sacramento for certain redevelopment projects within the City of Sacramento.
- \$68,470,000 2003 Capital Improvement Revenue Bonds
Authorized and issued September 30, 2003, due in annual principal and interest installments of \$3,986,775 to \$5,608,790 through December 1, 2033, bearing interest rates of 2.0% to 5.0%. Net proceeds of \$67,840,527 were utilized for the purpose of financing the 911 Call Center and certain other capital projects within the City of Sacramento.
- \$23,919,000 SHRA Variable Rate Demand Bonds
Authorized and issued in June and October, 2004, maturing on October 1, 2036, and is subject to prior redemption of the bonds on demand by the bondholders. Interest rates are determined weekly, payments of which are due monthly. The bonds are fully secured by a letter of credit. Proceeds were utilized for the purpose of rehabilitation and construction of the Phoenix Park II, L.P. affordable housing complex.

Tax Allocation Bonds

- \$121,809,469 SHRA Tax Allocation Bonds
To finance redevelopment projects, various bond issues ranging from \$1,760,000 to \$55,315,000 with maturities through 2029, bearing interest rates of 3.5% to 9%, payable from future property tax increment in redevelopment project areas.
- \$54,920,588 SHRA Tax Allocation Bonds
Authorized and Issued in December 2003 to finance redevelopment projects, various bond issues ranging from \$2,586,950 to \$23,669,250 with maturities through 2033, bearing interest rates of 2.0% to 6.25%, payable from future property tax increment in redevelopment project areas.

Certificates of Participation

- \$16,580,000 Sacramento Regional Arts Facilities 2002 Series Certificates of Participation
Authorized and issued in August 2002, due in annual principal and interest installments of \$754,484 to \$1,062,600 through September, 2032, bearing interest rates of 2.0% to 5.0%. Net proceeds of \$16,427,972 were utilized for the purpose of financing and refinancing the acquisition, renovation and construction of the H Street Theatre facilities. The debt service on the bonds is funded from lease revenue on the theatre facilities.
- \$12,809,317 Other Lease Financings
Authorized and issued March 1991 to August 1997, due in annual installments of \$213,000 to \$2,384,000 through August 2007, bearing interest rates of 5.5% to 7.25%, for the purpose of obtaining equipment for street lighting, the Sacramento Zoo, police, radio communication system, fire and other city departments.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Notes Payable

- \$2,220,465 1985 Sacramento Marina Note Payable, Phase I
Authorized July 1985, issued November 1985, refinanced August 1998, to the California Department of Boating and Waterways, due in annual installments of \$20,104 to \$82,228 through August 2030, bearing an interest rate of 4.5%, for the purpose of financing the expansion of the Sacramento Marina.
- \$3,229,441 1985 Sacramento Marina Note Payable, Phase II
Authorized July 1985, issued September 1987, refinanced August 1998, to the California Department of Boating and Waterways, due in annual installments of \$26,914 to \$149,713 through August 2037, bearing an interest rate of 4.5%, for the purpose of financing the expansion of the Sacramento Marina.
- \$1,828,769 1985 Sacramento Marina Note Payable, Phase III
Authorized July 1985, issued March 1988, refinanced August 1998, to the California Department of Boating and Waterways, due in annual installments of \$49,622 to \$119,643 through August 2018, bearing an interest rate of 4.5%, for the purpose of financing the expansion of the Sacramento Marina.
- \$1,116,859 1985 Sacramento Marina Note Payable, Phase IV
Authorized July 1985, issued February 1989, refinanced August 1998, to the California Department of Boating and Waterways, due in annual installments of \$29,036 to \$73,152 through August 2019, bearing an interest rate of 4.5%, for the purpose of financing the expansion of the Sacramento Marina.
- \$1,380,000 1997 State Department of Boating and Waterways Note Payable
Authorized January 1997, issued May 1999, due in annual installments of \$88,809 to \$98,168 through 2018, for the purpose of financing a visitor dock at the Old Sacramento Waterfront.
- \$2,619,435 State Water Resources Control Board Note Payable
Authorized July 1998, issued September 1998, due in annual installments of \$165,652 through March 2018, bearing an interest rate of 2.6%, for the purpose of financing the City's reservoir rehabilitation project.
- \$37,015,548 State Water Resources Control Board Note Payable
Authorized March 1999, issued beginning July 1999, due in annual installments of \$2,372,652 through November 2020, bearing an interest rate of 2.2%, for the purpose of financing various wastewater projects.
- \$5,177,477 State Water Resources Control Board Note Payable
Authorized March 2001, issued July 2001, due in annual installments of \$342,051 through September 2019, bearing an interest rate of 2.6%, for the purpose of financing the construction of underground storage and pumping facilities.
- \$2,603,365 State Water Resources Control Board Note Payable
Authorized June 2001, issued beginning May 2002, due in annual installments of \$148,569 through May 2021, bearing an interest rate of 2.6%, for the purpose of financing the replacement of sewer lines. In fiscal year 2003 there was an additional draw of \$249,716.
- \$5,672,013 State Water Resources Control Board Note Payable
Authorized February 2002, issued beginning February 2002, due in annual installments of \$397,125 through February 2021, bearing an interest rate of 2.6%, for the purpose of financing the replacement of sewer lines.
- \$6,019,458 SHRA Mortgage Notes Payable
To finance public housing projects, various notes with maturities through 2044, bearing interest rates of 3% to 8.38%, collateralized by land and buildings.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Notes Payable (Continued)

- \$21,745,919 SHRA Notes Payable
To finance acquisition of land, rehabilitation of public housing, and economic development loans, various notes with maturities through 2021, bearing interest rates of 3.25% to 9%, primarily collateralized by and payable from future federal Community Development Block Grant and Housing and Urban Development entitlements.
- \$2,950,000 SHRA Notes Payable
To finance acquisition of land, rehabilitation of public housing, and economic development loans, various notes with maturities through 2016, bearing interest rates of 3.0% to 5%, primarily collateralized by and payable from future federal Community Development Block Grant and Housing and Urban Development entitlements.
- \$1,500,000 SHRA Notes Payable
California Housing Finance Agency note payable authorized and issued January 2003 to finance acquisition of properties in the Phoenix Park project, accruing annual interest at 3.0% on funds drawn, payable in full January 2013.
- \$3,807,000 SHRA Notes Payable
California Infrastructure and Economic Development Bank loans authorized and issued January 2002, due in annual installments through December 2033, with interest payable semi-annually at 3.52% for the purpose of financing public development facilities at the former Mather and McClellan air force bases.
- \$14,839,000 SHRA Notes Payable
Phoenix Park I, L.P. Construction Note Payable to Citibank issued in 2004. The note bears variable interest at 2.25% plus one month LIBOR rate during the rehabilitation phase. Interest only payments are made on a monthly basis. The entire principal balance on the construction note, including any accrued interest, is immediately due and payable on the conversion date, as defined in the promissory note agreement. On the conversion date, the construction note shall become a permanent loan, less the conversion paydown amount. The note is secured by a deed of trust.
- \$1,000,000 SHRA Notes Payable
Phoenix Park I, L.P. Note Payable to Union Safe Deposit Bank (Bank). The note is noninterest bearing and is forgivable at the sole discretion of the Bank 57 years after February 1, 2004 provided that the Partnership complies with all of its obligation under the Affordable Housing Program (AHP) Agreement. There are no scheduled payments of interest and principal. The note is secured by a deed of trust.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Notes Payable (Continued)

- \$200,000 California Department of Education Note Payable
To finance the construction of temporary classrooms at Two Rivers School with maturities of \$20,000 per year through 2012. The note bears no interest.
- \$200,000 California Department of Education Note Payable
To finance the construction of temporary classrooms at Sequoia School with maturities of \$20,000 per year through 2014. The note bears no interest.
- \$549,775 Reclamation District Number 1000 Note Payable
The North Natomas CFD Number 97-01 entered into a note payable to the Reclamation District No. 1000 to finance the construction of drainage improvements for the North Natomas Comprehensive Drainage Plan. Interest accrues at an annual rate of 1.5%. It is anticipated that principal and interest will be paid in full in 2006.

Capital Lease Obligations

The City has entered into several long-term leases to finance the acquisition of real estate and equipment. The leases qualify as capital leases for accounting purposes as defined under the Financial Accounting Standards Board Statement No. 13, Accounting for Leases, and have been recorded at the present value of the future minimum lease payments. As of June 30, 2005, future minimum lease payments to be made by the City's General and Solid Waste Funds are as follows (in thousands):

<u>Years Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
2006	\$ 712	\$ 261	\$ 973
2007	712	261	973
2008	713	261	974
2009	690	261	951
2010	-	198	198
Total minimum lease payments	2,827	1,242	4,069
Less amounts representing interest	(278)	(96)	(374)
Net present value of minimum lease payments	<u>\$ 2,549</u>	<u>\$ 1,146</u>	<u>\$ 3,695</u>

The following is a schedule of leased property under capital leases by major classes at June 30, 2005 (in thousands):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 335	\$ -	\$ 335
Building	2,270	-	2,270
Equipment	2,010	1,192	3,202
Less: accumulated depreciation	(2,020)	(119)	(2,139)
Total	<u>\$ 2,595</u>	<u>\$ 1,073</u>	<u>\$ 3,668</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Other Long-term Liabilities

Accrued claims – Estimated liabilities of the City’s workers’ compensation, auto, and general liability self-insurance programs administered through the Risk Management Internal Service Fund.

Compensated absences – Due to employees for earned but unused compensated absence accounts, including vacation, sick, and compensated time off leave balances. Compensated absences are generally liquidated by the City’s General Fund, internal service funds and enterprise funds in each fiscal year.

Liability for landfill closure – Estimated post-closure maintenance and monitoring costs for the City’s 28th Street landfill site.

Financing plan fee credits – Issued to developers as consideration for infrastructure and other capital improvements constructed on behalf of the City within the scope of the North Natomas and Jacinto Creek financing plans. Credits are redeemable from or against future financing plan impact fees assessed within the geographic boundaries of the plan.

Future Debt Service Requirements

The annual debt service requirements for City long-term debt outstanding as of June 30, 2005, and SHRA and Hotel component unit long-term debt outstanding as of December 31, 2004, are as follows (in thousands):

Annual debt service requirements of governmental activities to maturity are as follows:

Fiscal Year Ending June 30,	Revenue Bonds		Tax Allocation Bonds		Certificates of Participation	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 16,376	\$ 21,862	\$ 7,230	\$ 6,420	\$ 219	\$ 17
2007	87,971	21,195	7,774	6,175	105	3
2008	15,057	15,516	8,505	5,902	-	-
2009	15,691	14,870	8,816	5,584	-	-
2010	14,786	14,215	9,174	5,231	-	-
2011 - 2015	78,791	60,744	45,477	26,938	-	-
2016 - 2020	78,515	41,057	16,282	34,985	-	-
2021 - 2025	43,855	24,729	11,284	9,506	-	-
2026 - 2030	44,580	14,010	11,407	7,509	-	-
2031 - 2035	31,100	2,804	12,080	2,166	-	-
Subtotals	426,722	231,002	138,029	110,416	324	20
Less: Issuance discounts	(734)	-	(575)	-	-	-
Plus: Issuance premiums	2,290	-	-	-	-	-
Less: Net loss on refunding	(688)	-	-	-	-	-
Totals	<u>\$427,590</u>	<u>\$ 231,002</u>	<u>\$137,454</u>	<u>\$ 110,416</u>	<u>\$ 324</u>	<u>\$ 20</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Future Debt Service Requirements (Continued)

Fiscal Year Ending June 30,	Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2006	\$ 2,337	\$ 802	\$ 587	\$ 125
2007	608	686	630	82
2008	686	665	661	52
2009	709	635	671	19
2010	2,618	1,112	-	-
2011 - 2015	5,856	3,282	-	-
2016 - 2020	3,026	1,243	-	-
2021 - 2025	600	60	-	-
Totals	<u>\$ 16,440</u>	<u>\$ 8,485</u>	<u>\$ 2,549</u>	<u>\$ 278</u>

Annual debt service requirements of business-type activities to maturity are as follows:

Fiscal Year Ending June 30,	Revenue Bonds		Certificates of Participation		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 11,127	\$ 20,852	\$ 15	\$ -	\$ 2,684	\$ 1,409
2007	11,624	20,349	-	-	17,570	1,342
2008	12,143	19,779	-	-	2,804	1,272
2009	12,739	19,169	-	-	2,874	1,201
2010	13,349	18,275	-	-	2,922	1,129
2011 - 2015	72,944	77,190	-	-	15,633	4,483
2016 - 2020	86,337	54,878	-	-	18,524	3,158
2021 - 2025	62,045	33,468	-	-	3,642	716
2026 - 2030	65,765	18,209	-	-	846	475
2031 - 2035	36,600	2,805	-	-	1,054	266
2036 - 2040	23,919	-	-	-	534	44
2041 - 2045	-	-	-	-	3,334	3,000
2046 - 2050	-	-	-	-	1,522	2,278
2051 - 2055	-	-	-	-	-	-
2056 - 2060	-	-	-	-	-	-
2061 - 2065	-	-	-	-	1,000	-
Subtotals	\$408,592	\$284,974	\$ 15	\$ -	\$ 74,943	\$ 20,773
Less: Issuance discounts	(3,350)	-	-	-	-	-
Plus: Issuance premiums	523	-	-	-	-	-
Less: Net loss on refunding	(8,324)	-	-	-	-	-
Totals	<u>\$397,441</u>	<u>\$284,974</u>	<u>\$ 15</u>	<u>\$ -</u>	<u>\$ 74,943</u>	<u>\$ 20,773</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Future Debt Service Requirements (Continued)

Fiscal Year Ending June 30,	Capital Leases	
	Principal	Interest
2006	\$ 227	\$ 34
2007	234	27
2008	242	19
2009	249	12
2010	194	4
Totals	<u>\$ 1,146</u>	<u>\$ 96</u>

Annual debt service requirements of component unit activities to maturity are as follows:

Fiscal Year Ending June 30,	Revenue Bonds		Certificates of Participation	
	Principal	Interest	Principal	Interest
2006	\$ -	\$ 5,800	\$ 335	\$ 724
2007	1,970	5,800	340	717
2008	2,200	5,788	345	709
2009	2,300	5,763	355	700
2010	2,500	5,731	365	689
2011 - 2015	10,200	27,706	2,045	3,210
2016 - 2020	15,000	24,844	2,505	2,749
2021 - 2025	23,900	18,881	3,115	2,109
2026 - 2030	32,200	10,444	3,965	1,236
2031 - 2035	13,300	831	2,885	221
Subtotals	103,570	111,588	16,255	13,064
Less: Unaccreted interest	(3,246)	-	-	-
Less: Issuance discounts	(755)	-	(139)	-
Totals	<u>\$ 99,566</u>	<u>\$ 111,588</u>	<u>\$ 16,116</u>	<u>\$ 13,064</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Interest rate swap

Objective of the interest rate swap. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in July 1997, the Sacramento City Financing Authority (the "Authority") entered into an interest rate swap in connection with its \$73,725,000 1997 Lease Revenue Bonds (Arco Arena Acquisition) variable interest rate bonds (the "Bonds"). The intention of the swap was to effectively change the Authority's variable interest rate on the bonds to a synthetic fixed rate of 6.845% through the end of the swap agreement's term. As of June 30, 2005, the amount of outstanding Bonds was \$72,290,000. The interest and principal payments on the Bonds are insured by a third party bond insurer.

Terms. The Bonds mature on July 15, 2027 and are subject to mandatory tender on July 18, 2007. The Bonds carry an interest rate equal to 3-month London Interbank Offered Rate ("LIBOR") plus 0.25% (total rate not to exceed 14%), payable quarterly, until July 18, 2007. The swap agreement terminates on July 18, 2007, and has a notional amount as of June 30, 2005 of \$72,290,000. The notional amount of the swap and the par amount of the Bonds each decline according to the same schedule through 2007. The swap was entered at the same time the Bonds were issued (July 1997). Under the swap, the Authority pays the counterparty a fixed payment of 6.845% and receives a variable payment computed as LIBOR plus 0.25% (total rate not to exceed 14%). The Authority's payments to the counterparty under the swap agreement are insured by the third party bond insurer.

Fair value. Because interest rates have declined since the execution of the swap, the swap had a negative fair value of \$4,135,874 as of June 30, 2005. Because the coupons on the Bonds adjust as LIBOR adjusts, the Bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk. As of June 30, 2005, the Authority was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated "AA-" by Fitch Ratings, "Aa3" by Moody's Investors Service, and "A+" by Standard & Poor's as of June 30, 2005. To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A3" by Moody's Investors Service or "A-" by Standard & Poor's, the swap agreement provides the counterparty, the Authority, the bond insurer for the Bonds, and a third-party collateral agent are to execute a collateral agreement establishing the type of collateral, the amount of collateral, the collateral agent, and the terms of the collateral agreement within 30 days of such a downgrade.

Basis risk. The swap agreement provides that the payment received by the Authority shall be at LIBOR plus 0.25% (total rate not to exceed 14%), the equivalent of the interest rate on the Bonds. This arrangement mitigates the Authority's exposure to basis risk.

Termination risk. The Authority may terminate the swap if the counterparty fails to perform under the terms of the contract. The Authority also may terminate the swap if the counterparty fails to execute a collateral agreement satisfactory to the Authority and the bond insurer within 30 days of the counterparty's ratings falling below "A3" by Moody's Investors Service or "A-" by Standard & Poor's. The counterparty may terminate the swap if the Authority fails to perform under the terms of the contract, and the bond insurer fails to perform under the terms of the contract. The counterparty also may terminate the swap upon the occurrence of the following events: 1) the bond insurer falls below "A3" by Moody's Investors Service or "A-" by Standard & Poor's, and; 2) the Authority falls below "Baa3" by Moody's Investors Service or "BBB-" by Standard & Poor's. If the swap is terminated, the variable rate Bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Interest rate swap (Continued)

Swap payments and associated debt. Using rates as of June 30, 2005, debt service requirements of the variable rate Bonds and net swap payments, assuming current interest rates remain the same through the July 2007 termination date of the swap and mandatory tender date on the Bonds, were as follows (in thousands):

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
2006	\$ 615	\$ 2,472	\$ 2,444	\$ 5,531
2007	745	2,448	2,420	5,613
2008	70,930	723	717	72,370
Total	<u>\$ 72,290</u>	<u>\$ 5,643</u>	<u>\$ 5,581</u>	<u>\$ 83,514</u>

Beyond the termination date of the swap and mandatory tender date on the bonds in July 2007, the interest rates on the bonds will vary.

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the U.S. Department of Treasury at least every five years. During the current year, the City performed calculations of excess investment earnings on various bonds and at June 30, 2005, determined the estimated liability to be zero.

Special Assessment Debt

Total matured and unmatured bonds outstanding related to special assessment and special tax districts are \$142 million at June 30, 2005. The City acts as an agent for the property owners in collecting special assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, when appropriate. The City is not liable for repayment of the special district bonds, and accordingly, they are not reflected in the accompanying basic financial statements. Cash held on deposit and corresponding amounts payable for the districts are reported in the Assessment Districts and Community Facility District Act Agency Funds.

Conduit Debt

Total bonds outstanding related to special facility revenue bonds is \$183 million at June 30, 2005. These bonds were issued to provide administrative and service facilities for four non-profit organizations and for offices leased to the State of California Department of General Services (State). The bonds issued are special limited obligations of the City, payable solely from and secured by a pledge of revenue to be received from loan or lease agreements between the City and the non-profit organizations or the State. The City is not liable for repayment of the special facility revenue bonds, and accordingly, they are not reflected in the accompanying basic financial statements.

Mortgage Insured Bonds

The City and the County of Sacramento have issued single family and multifamily mortgage bonds totaling \$137 million. The bonds were issued to provide funds for the purchase of home mortgages in the Sacramento County area. SHRA was appointed by the City and County of Sacramento to administer the mortgage program. The mortgage bonds do not constitute a liability of SHRA or the City and are not reflected in the accompanying basic financial statements.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 – EMPLOYEE RETIREMENT PLANS

Defined Benefit Plan Descriptions

The City of Sacramento provides defined benefit retirement benefits through the California Public Employees' Retirement System (PERS) and the Sacramento City Employees' Retirement System (SCERS). PERS is an agent multiple-employer public employee defined benefit pension plan. SCERS is a single-employer defined benefit pension plan.

PERS

All full-time and certain part-time City employees hired after January 28, 1977 and all SHRA and City safety employees, regardless of date of hire, are eligible to participate in PERS. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and their beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from the PERS Executive Office at 400 Q Street, Sacramento, CA 95814. A separate report for the City's plan within PERS is not available.

SCERS

All full-time, non-safety employees hired before January 29, 1977, excluding SHRA, are eligible to participate in SCERS. SCERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

The City reports SCERS as a pension trust fund. SCERS issues a publicly available financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing the City of Sacramento Department of Finance, 915 I Street, 4th Floor, Sacramento, CA 95814. The following is a summary of significant accounting policies:

Basis of Accounting – SCERS' financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments – Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 – EMPLOYEE RETIREMENT PLANS (Continued)

Funding Policy

Participants are required to contribute a percentage of their annual covered salary, as follows:

PERS - Miscellaneous and SHRA	7%
PERS - Safety	9
SCERS - (varies with entry age)	3 – 10

The City makes the following participant contributions on their behalf and for their account (percent of annual covered payroll):

PERS - Certain miscellaneous employees, excluding SHRA	3%
PERS - SHRA miscellaneous	2.5 – 3.5
PERS - Safety	9

The City is required to contribute at actuarially determined rates. Rates for the fiscal year ended June 30, 2005 were as follows (percent of annual covered payroll):

PERS - Miscellaneous	9.006%
PERS - SHRA	6.511
PERS - Safety	22.620
SCERS	0.000

PERS contribution requirements are established and may be amended by PERS. SCERS contribution requirements are established by City Code.

Annual Pension Cost

PERS (excluding SHRA)

For the fiscal year ended June 30, 2005, the City's annual PERS pension cost of \$29.1 million was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002, actuarial valuation, using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service ranging from 3.75% to 14.20%. Both (a) and (b) included an inflation component of 3.50% and an annual production growth of .25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. Unfunded actuarial accrued liabilities and excess assets as of June 30, 2003 are being amortized, using the level percentage of payroll method, over a closed period that depends on the plan's date of entry into PERS. The remaining amortization period at June 30, 2003 was 26 years for the safety employees' plan and 19 years for the miscellaneous employees' plan. Subsequent plan amendments are amortized as a level percentage of projected payrolls over a closed 20-year period. Annual gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 – EMPLOYEE RETIREMENT PLANS (Continued)

Annual Pension Cost (Continued)

PERS (SHRA)

For the year ended December 31, 2004, SHRA's annual pension cost of \$0.5 million was equal to the required and actual contributions. The required contribution was determined as part of the June 30, 2002 and 2001 actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases of 3.25% to 14.45% attributable to merit or seniority increases that vary by length of service and (c) no post-retirement increases. Both (a) and (b) include an inflation component of 3.0% and an annual production growth of 0.25%. The actuarial value of the plan's assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a three-year period depending on the size of investment gains and/or losses. The amortization period on the unfunded actuarial liability is expected to be 20 years and is a closed period. The amortization period is a level percent of payroll.

SCERS

The City had no required contributions or actual pension cost for the fiscal year ended June 30, 2005. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) 5% projected annual salary increases, (c) an inflation component of 3%, and (d) 4% per year social security wage base adjustments. SCERS assets in excess of liabilities are being amortized as a level percentage of projected payrolls on a closed basis. The fair value of plan assets is used as the actuarial value of assets. The remaining amortization period at June 30, 2005 was 7 years.

Three-Year Trend Information

PERS (excluding SHRA)

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC) (in millions)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2003	\$ 3.0	100%	\$ 0
June 30, 2004	8.8	100	0
June 30, 2005	29.1	100	0

PERS (SHRA)

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC) (in millions)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
Dec. 31, 2002	\$ 0.0	100%	\$ 0
Dec. 31, 2003	0.0	100	0
Dec. 31, 2004	0.5	100	0

SCERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC) (in millions)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2003	\$ 0.0	100%	\$ 0
June 30, 2004	0.0	100	0
June 30, 2005	0.0	100	0

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 – EMPLOYEE RETIREMENT PLANS (Continued)

Defined Contribution Plan

The City also provides defined contribution retirement benefits through the City of Sacramento 401(a) Money Purchase Plan (the Plan). The Plan is administered by the International City Management Association Retirement Corporation. Plan provisions and contribution requirements are established and may be amended by City Council. Unrepresented exempt and certain represented employees may elect to participate. Participating employees of the aforementioned groups are required to contribute 5% and 2%, and the City contributes 4% and 2%, respectively, of covered salary. For the year ended June 30, 2005, employees contributed \$1,977,000 and the City contributed \$1,593,000 to the Plan.

NOTE 9 – POST-EMPLOYMENT HEALTH AND DENTAL CARE BENEFITS

The City provides health and dental care insurance benefits for all retirees, their survivors and dependents.

Participants have the choice of enrolling in one of several health plans and one of two dental plans. For City employees, excluding SHRA, to be eligible for these benefits, the employee must retire with a minimum of ten full years of active service and be 55 or 50 years of age for miscellaneous and safety employees, respectively. Participants with less than twenty years of service are eligible for 50% of the maximum benefit. Those participants with a minimum of twenty years of service are eligible for 100% of the maximum benefit. The post-retirement health care, and dental care benefits are up to \$369 per month per participant, which covers between 21% and 100% of the benefit cost, depending on the choice of plan and number of dependents.

For SHRA retirees, the combined health and dental care benefit consists of a range of \$360 to \$507 per month per participant, depending on the participant's job classification at the time of retirement. SHRA covers 100% of the participant's health and dental benefits under these plans.

City benefits are defined by labor agreements and resolutions approved by the City Council. SHRA benefits are defined by labor agreements approved by the City Council and County Board of Supervisors. Benefit costs are recorded on a pay-as-you-go basis as nondepartmental expenditures. For the most recent fiscal year, the City and SHRA expended approximately \$5.8 million and \$851,000, respectively, for post-employment health and dental care insurance benefits. The City and SHRA provided coverage for approximately 2,198 and 180 retirees and/or families, respectively.

NOTE 10 – FUND EQUITY AND EXCESS OF EXPENDITURES OVER APPROPRIATION

The beginning fund balance of the General Fund and the beginning net assets of governmental activities and business-type activities have been restated to reflect the reclassification of the Advanced Life Support (ALS) program from an enterprise fund to a Fire department program in the General Fund.

The Grants Fund, a special revenue fund, had a deficit fund balance of \$5.2 million as of June 30, 2005. The Capital Grants Fund, a capital projects fund, had a deficit fund balance of \$24.6 million, as of June 30, 2005. The deficits represent grant expenditures unreimbursed by granting agencies within the 60 day period of availability for which corresponding revenues have not been recorded. The deficits will be recovered upon receipt of grantor reimbursements.

The Marina Fund, an enterprise fund, had accumulated deficit net assets of \$743,000 which will be recovered through future operating income. The Risk Management Fund, an internal service fund, had accumulated deficit net assets of \$8.9 million as a result of premium deficiency. This will be recovered through future premium increases.

For the fiscal year ended June 30, 2005, expenditures exceeded appropriations in the Zoo program in the Culture and Leisure special revenue fund by \$151,000, partially offset by positive variances of \$30,000. These excess expenditures were funded by \$171,000 of revenues in excess of budgeted revenues.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 – INTERFUND TRANSACTIONS

Transfers

Transfers report the nonreciprocal contribution of resources from one fund to another. The following is a summary of transfers for the fiscal year ended June 30, 2005 (in thousands):

	<u>Description</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Activities:				
General Fund	In-lieu transfers	\$ 18,153	\$ -	\$ 18,153
General Fund	Debt service	-	17,966	(17,966)
General Fund	Program support	3,020	2,690	330
Transportation and Development	Program support	-	1,746	(1,746)
Transportation and Development	Debt service	-	1,417	(1,417)
SHRA Special Revenue Fund	Program support	1,289	2,219	(930)
SHRA Capital Projects Fund	Program support	11,336	2,944	8,392
Nonmajor governmental funds	Debt service	21,214	2,400	18,814
Nonmajor governmental funds	Transfer for capital assets	-	11,386	(11,386)
Nonmajor governmental funds	Program support	2,532	10,440	(7,908)
Internal service funds	Debt service	470	-	470
Internal service funds	Program support	192	2,603	(2,411)
Internal service funds	Transfer for capital assets	125	1,150	(1,025)
Adjustment for transfer of SHRA capital assets from governmental funds to enterprise funds	Transfer of capital assets	-	11,170	(11,170)
Total governmental activities		<u>58,331</u>	<u>68,131</u>	<u>(9,800)</u>
Business type Activities:				
Water	In-lieu transfers	-	4,897	(4,897)
Water	Transfer for capital assets	5,648	13	5,635
Water	Program support	113	-	113
Sewer	In-lieu transfers	-	1,659	(1,659)
Sewer	Transfer for capital assets	2,222	40	2,182
Sewer	Program support	87	-	87
Solid Waste	In-lieu transfers	-	4,452	(4,452)
Solid Waste	Transfer for capital assets	-	41	(41)
Solid Waste	Program support	981	-	981
Storm Drainage	In-lieu transfers	-	3,408	(3,408)
Storm Drainage	Transfer for capital assets	3,517	30	3,487
Storm Drainage	Program support	156	-	156
Community Center	In-lieu transfers	-	1,346	(1,346)
Community Center	Program support	1,961	194	1,767
SHRA Enterprise Fund	Program support	2,676	609	2,067
Nonmajor enterprise funds	In-lieu transfers	-	2,393	(2,393)
Nonmajor enterprise funds	Program support	251	-	251
Nonmajor enterprise funds	Debt service	100	-	100
Adjustment for transfer of SHRA capital assets from governmental funds to enterprise funds	Transfer of capital assets	11,170	-	11,170
Total business-type activities		<u>28,882</u>	<u>19,082</u>	<u>9,800</u>
Total government-wide statements		<u>\$ 87,213</u>	<u>\$ 87,213</u>	<u>\$ -</u>

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - INTERFUND TRANSACTIONS (Continued)

Transfers (continued)

The \$2.676 million transfers into the SHRA Enterprise Fund includes a \$1.15 million transfer of capital assets which was reported in the SHRA Enterprise statement of revenues, expenses, and changes in fund net assets as a capital contribution. A corresponding \$1.15 million transfer out was reported in the SHRA Internal Service Fund statement of revenues, expenses, and changes in fund net assets.

Interfund Balances

Interfund balances report lending transactions between funds. The following is a summary of interfund balances as of June 30, 2005 (in thousands):

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Interfund Balance</u>
Governmental Activities:			
General Fund	\$ 400	\$ 613	\$ (213)
SHRA Capital Projects	10,810	2,730	8,080
SHRA Special Revenue	15,298	1,731	13,567
Nonmajor governmental funds	1,118	28,821	(27,703)
Internal Service Funds	42,496	1,000	41,496
Total governmental activities	<u>70,122</u>	<u>34,895</u>	<u>35,227</u>
Business type Activities:			
Solid Waste	-	2,007	(2,007)
Community Center	-	9,144	(9,144)
SHRA Enterprise Fund	19,755	37,280	(17,525)
Nonmajor enterprise funds	200	6,581	(6,381)
Total business type activities	<u>19,955</u>	<u>55,012</u>	<u>(35,057)</u>
Total	<u>\$ 90,077</u>	<u>\$ 89,907</u>	<u>\$ 170</u>

The balance of \$170 thousand is the result of timing differences in recording a loan payment between SHRA and the City of Sacramento. The timing differences arise because SHRA has a December 31 year end and the City has a June 30 year end.

\$15.3 million receivable in SHRA's Special Revenue fund, \$10.8 million receivable in SHRA's Capital Projects fund, and \$19.8 million receivable in SHRA's Enterprise Fund is money loaned for development projects.

\$42.5 million was loaned by the City's Internal Service funds to cover short-term operating deficits (approximately \$26.5 million) and to assist in development of community resources (approximately \$16 million).

\$28.8 million was borrowed by various nonmajor governmental funds for short term loans (approximately \$24 million), and development of community resources (approximately \$4.8 million).

\$1.1 million was loaned by various nonmajor governmental funds to assist in community redevelopment.

\$53 million was borrowed by various enterprise funds to develop community housing and recreation resources. \$2 million was borrowed to cover a short-term operating deficit.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 - RISK MANAGEMENT

City

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. Earthquake damage is not included in the commercial coverage carried by the City.

The Risk Management Internal Service Fund self-insures each workers' compensation claim and provides a self-insured retention for each general or automobile liability claim. The self-insured retention for general and automobile liability claims is \$2 million plus claims that exceed commercial insurance coverage. Commercial insurance for general and automobile liability claims provides \$10 million in coverage for amounts over the City's \$2 million self-insured retention. Liabilities are estimated based on recommendations from an independent actuarial evaluation. Liabilities are based on estimated ultimate cost of settling claims, including effects of inflation and other societal and economic factors. Estimated liability is then discounted by the City's expected rate of return and anticipated timing of cash outlays to determine present value of the liability. For the fiscal year ended June 30, 2005, the expected rate of return was 3 percent. Settled claims have not exceeded insurance coverage for each of the past three fiscal years.

All funds of the City participate in the program and make payments to the Risk Management Internal Service Fund based on estimates of the amounts needed to pay prior and current year claims. At June 30, 2005, the Fund had deficit net assets of \$8.9 million. The deficit net assets balance is expected to be repaid through future contributions from City participants.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

Changes in the Risk Management Internal Service Fund's claims liability for the past two fiscal years is summarized as follows (in thousands):

	2005	2004
Accrued claims, July 1	\$ 58,850	\$ 53,011
Incurred claims and adjustment expenses	23,165	22,699
Claim payments	(15,044)	(16,860)
Accrued claims, June 30	\$ 66,971	\$ 58,850

SHRA

SHRA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries and illnesses of employees; wrongful employment practice; and natural disasters. SHRA uses its internal service fund to account for and finance its risks of loss. Under these programs SHRA is self-insured for the following risks up to the maximum amount per claim as follows: general liability \$100,000, automotive liability \$3,000, property \$100,000, and employment practice liability \$100,000. SHRA is self-insured for those automobile claims, which consist of employee injuries and SHRA vehicle damage. Additional auto insurance is purchased for liability coverage up to \$5,000,000.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 - RISK MANAGEMENT (Continued)

For general liability claims, SHRA is one of seven public housing authorities of the California Housing Authority Risk Management Agency (CHARMA), formed as a means of providing general liability coverage (including errors and omissions), purchasing excess insurance on a collective basis and providing other coverage as approved by the board of directors. SHRA covers the first \$100,000 per claim, and the risk pool covers up to \$250,000 per claim. The purpose of CHARMA is to spread the adverse effects of losses among the member agencies. Should actual losses among participants be greater than anticipated, SHRA will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, SHRA will be refunded its pro rata share of the excess. Excess commercial insurance is provided through the pool up to an additional \$5,000,000 for each occurrence. Settled claims have not exceeded this commercial coverage in any of the past ten years.

Workers' compensation and employer's liability insurance is provided through California Housing Workers' Compensation Authority (CHWCA), a risk sharing pool. For employer's liability claims, the pool covers up to \$250,000 per accident. Excess liability insurance is provided through the risk pool up to an additional \$2,000,000 for each accident. For workers' compensation claims, the pool covers SHRA's claims within the statutory limit. Should actual losses among participants be greater than anticipated, SHRA will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, SHRA will be refunded its pro rata share of the excess.

All SHRA operating funds participate in its self-insurance programs and make payments to the internal service fund based on historical cost and/or actuarial estimates of amounts needed to pay prior and current year claims, and to allow accrual of estimated incurred but not reported claims. The total historical cost/actuarially determined claims liability at December 31, 2004 is \$618,000 consisting of \$25,000 for automotive liability, \$260,000 for general liability, \$100,000 for property damage liability, and \$233,000 for unallocated loss adjustment expenses. These claim estimates are based on the requirements of Governmental Accounting Standards Board Statement 30, and include claims incurred but not reported as of December 31, 2004. Changes in claims liability during the fiscal years ended December 31, 2004 and 2003 were as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Accrued claims, January 1	\$ 646	\$ 614
Claims and changes in estimates	133	159
Claims payments	<u>(161)</u>	<u>(127)</u>
Accrued claims, December 31	<u>\$ 618</u>	<u>\$ 646</u>

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Commitment of Enterprise Fund Revenues

Revenues of the Sewer and Storm Drainage Enterprise Funds are pledged to the payment of principal and interest on the State Water Resources Control Board Notes Payable.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

Construction and Other Commitments

The City, excluding SHRA, has commitments of \$75.7 million for contracts awarded but not completed at June 30, 2005. This amount consists of \$12.8 million in the General Fund, \$12.3 million in the special revenue funds, \$40.4 million in the capital projects funds and \$10.2 million in proprietary funds. The major contracts outstanding are for the 911 Dispatch and Training Facility project, the Main Avenue bridge replacement, the Bruceville Road widening project, and other public infrastructure improvement projects.

As of December 31, 2004, SHRA had outstanding unencumbered contractual obligations, primarily for housing project site improvements and structural rehabilitation, of \$11.5 million.

Contingent Liabilities

The City participates in a number of federal, state and local grant programs, the principal of which are Community Development Block Grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City does not expect such amounts, if any, to materially affect the financial statements of the City. Receipt of these grant revenues is not assured in the future.

Litigation

Various claims and lawsuits are pending against the City. Although the outcome of these claims and lawsuits is not presently determinable, management, after consultation with legal counsel, is of the opinion that these matters will not have a material adverse effect on the financial condition of the City.

Closure and Postclosure Care Cost

State and federal laws and regulations required the City to place a final cover on its 28th Street landfill site, after it stopped accepting waste, and to perform certain maintenance and monitoring functions at the site after closure. The \$15.2 million reported as liability for landfill closure at June 30, 2005, represents the City's estimate of these costs for the next twenty years. The estimate is based on anticipated post closure costs, which are allocated by year using inflation values. Actual costs may be higher due to inflation above the estimated levels, changes in technology, or changes in laws or regulations. The City has received state approval to fund this liability, along with cost increases due to inflation, with future Solid Waste Fund user charges.

Toxics Mitigation

The City has identified underground toxic contamination on land owned by the City. Future costs to clean up and monitor the site have been estimated as \$1.1 million through the year 2023. These costs will be funded with annual appropriations as expenditures are incurred.

City of Sacramento
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 - JOINTLY GOVERNED AND RELATED ORGANIZATIONS

Sacramento Public Library Authority

The City is a participant with the County of Sacramento in the Sacramento Public Library Authority (Library), a joint powers agency created to provide library services to the residents of the City and the County. The Library is governed by a nine-member board made up of five County appointees and four City appointees. It is a component unit of the County. The joint powers agreement dated August 31, 1993 remains in effect unless terminated by mutual agreement of the City and County, or at the end of a fiscal year after a one-year notice is given by either the City or County. Upon termination, the City would receive equipment and resources proportionate to its contribution to the Library. The City and County are committed to fund annual contributions to operate library branches in their respective jurisdictions. City and County contributions for the fiscal year ended June 30, 2005, were \$8.0 and \$13.9 million, respectively, which were sufficient to fund Library operations for the year. During the year, the City also contributed the use of its library facilities to the Library. Financial statements for the Library can be obtained from the City's Department of Finance.

Related Organizations

The City's officials are responsible for appointing members to the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City Council confirms board appointments made by the Mayor to: The Local Agency Formation Commission, the Regional Transit Board, the Sacramento Area Council of Governments, the Sacramento Area Commerce & Trade Organization, the Sacramento Area Flood Control Agency, the Sacramento Employment and Training Agency, the Sacramento Metropolitan Air Quality Management District, the Sacramento Metropolitan Cable Television Commission, the Sacramento Regional County Sanitation District, the Sacramento Regional County Solid Waste Authority, the Sacramento Regional Fire/EMS Communication Center, the Sacramento Transportation Authority, the Water Advisory Commission, and the Regional Fire and Rescue Training Authority.

The City's financial support to these organizations during the year ended June 30, 2005 included \$650,000 to support paratransit services through the Sacramento Area Council of Governments, and \$2,293,000 for operations and facility support to the Sacramento Regional Fire/EMS Communication Center.

The City also received financial support from these related organizations during the year ended June 30, 2005, including \$18,212,000 in the Transportation and Development Fund from the Sacramento Transportation Authority, \$2,082,000 of cable television revenues in the General Fund from the Sacramento Metropolitan Cable Television Commission, and \$1,102,000 of revenue in the General Fund from the Sacramento Regional County Solid Waste Authority.

In addition, the City administers customer billing and collections on behalf of the Sacramento Regional County Sanitation District. Accounts receivable and an offsetting liability of \$1,144,000 for customer accounts is recorded in the City's Sewer Enterprise Fund as of June 30, 2005.

NOTE 15 – SUBSEQUENT EVENTS

On July 12, 2005, the Sacramento City Financing Authority, a component unit of the City of Sacramento, issued \$173 million of revenue bonds to refund a portion of the outstanding 1999, 2000, 2001 and 2002 capital improvement revenue bonds.

Required Supplementary Information

City of Sacramento
Required Supplementary Information
Schedule of Funding Progress (Unaudited)
Pension Plans
(in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	(Overfunded) Unfunded AAL (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	(Overfunded) Unfunded AAL as a % of Covered Payroll {(b)-(a)}/(c)
<u>PERS – City Miscellaneous</u>						
6/30/01	\$ 275	\$ 237	\$ (38)	116%	\$ 97	(39)%
6/30/02	265	271	6	98	111	5
6/30/03	278	326	48	85	119	40
<u>PERS – City Safety</u>						
6/30/01	682	617	(65)	111	67	(97)
6/30/02	641	680	39	94	77	51
6/30/03	646	725	79	89	76	104
<u>PERS – SHRA</u>						
6/30/01	71	55	(16)	129	14	(114)
6/30/02	66	61	(5)	109	15	(38)
6/30/03	68	70	2	97	16	12
<u>SCERS</u>						
6/30/03	386	363	(23)	106	12	(192)
6/30/04	394	363	(31)	108	13	(238)
6/30/05	374	370	(3)	101	12	(25)

THIS PAGE INTENTIONALLY LEFT BLANK

OTHER GOVERNMENTAL FUNDS

Other governmental funds are nonmajor funds reported in the other governmental funds column of the governmental funds financial statements and include:

OTHER SPECIAL REVENUE FUNDS are used to account for assets, liabilities, revenues and expenditures related to activities supported by specific taxes or other designated revenue sources. These funds are generally required by statute, charter or ordinance to finance specific government functions. The individual funds are listed in the other special revenue funds section of the CAFR.

OTHER DEBT SERVICE FUNDS are used to account for the accumulation of resources and payments of long-term debt principal and interest for the governmental funds. The individual funds are listed in the other debt service funds section of the CAFR.

OTHER CAPITAL PROJECTS FUNDS are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds. The individual funds are listed in the other capital projects funds section of the CAFR.

PERMANENT FUNDS are used to account for resources that are held by the City which are legally restricted to the extent that only earnings may be used for purposes that support City programs. The individual funds are listed in the permanent funds section of the CAFR.

City of Sacramento
Combining Balance Sheet
Other Governmental Funds

June 30, 2005
(in thousands)

	Other Special Revenue Funds	Other Debt Service Funds	Other Capital Projects Funds	Permanent Funds	Total Other Governmental Funds
ASSETS					
Cash and investments held by City	\$ 28,720	\$ 11,887	\$ 131,087	\$ 4,838	\$ 176,532
Cash and investments held by fiscal agent	-	3,107	-	-	3,107
Receivables, net:					
Taxes	-	6,079	-	-	6,079
Accounts	1,734	59	8,580	-	10,373
Loans	-	2,222	-	-	2,222
Intergovernmental	12,740	-	31,988	-	44,728
Interest	3	134	673	9	819
Prepaid items	8	-	-	-	8
Restricted assets:					
Cash and investments held by City	600	7,859	17,281	-	25,740
Cash and investments held by fiscal agent	-	10,126	-	-	10,126
Advances to other funds	-	1,118	-	-	1,118
Total assets	\$ 43,805	\$ 42,591	\$ 189,609	\$ 4,847	\$ 280,852
LIABILITIES AND FUND BALANCES					
Liabilities:					
Securities lending obligations	\$ -	\$ -	\$ 28,053	\$ -	\$ 28,053
Accounts payable	4,101	972	12,082	-	17,155
Due to other funds	1,639	426	22,270	-	24,335
Matured bonds and interest payable	-	2,894	-	-	2,894
Deposits	350	-	604	-	954
Deferred revenue	16,950	421	38,419	-	55,790
Advances from other funds	-	4,486	-	-	4,486
Total liabilities	23,040	9,199	101,428	-	133,667
Fund balances:					
Reserved:					
For noncurrent assets	-	3,340	-	-	3,340
For encumbrances	3,443	-	35,851	-	39,294
For debt service	600	17,985	470	-	19,055
For trust obligations	-	-	-	1,927	1,927
Unreserved:					
Designated for capital projects	5,209	-	28,727	-	33,936
Designated for subsequent years' expenditures	1,057	147	464	227	1,895
Undesignated	10,456	11,920	22,669	2,693	47,738
Total fund balances	20,765	33,392	88,181	4,847	147,185
Total liabilities and fund balances	\$ 43,805	\$ 42,591	\$ 189,609	\$ 4,847	\$ 280,852

City of Sacramento
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Other Governmental Funds
For the Fiscal Year Ended June 30, 2005
(in thousands)

	Other Special Revenue Funds	Other Debt Service Funds	Other Capital Projects Funds	Permanent Funds	Total Other Governmental Funds
Revenues:					
Taxes	\$ -	\$ 32,342	\$ -	\$ -	\$ 32,342
Intergovernmental	28,957	-	29,346	-	58,303
Charges for services	891	-	-	-	891
Fines, forfeits and penalties	3	-	-	-	3
Interest, rents, and concessions	1,554	2,921	3,154	315	7,944
Community service fees	6,337	-	32,994	-	39,331
Assessment levies	18,443	-	-	-	18,443
Contributions from property owners	-	78	38,434	-	38,512
Donations	62	-	-	1	63
Miscellaneous	65	-	2	-	67
Total revenues	56,312	35,341	103,930	316	195,899
Expenditures:					
Current:					
General government	441	-	-	5	446
Police	17,297	-	-	-	17,297
Fire	1,685	-	-	-	1,685
General services	1,244	-	6,709	-	7,953
Transportation	3,991	-	-	-	3,991
Convention, culture and leisure	1,067	-	-	7	1,074
Parks and recreation	17,013	-	89	-	17,102
Development services	232	-	35,532	-	35,764
Neighborhood services	250	-	-	-	250
Nondepartmental	4,955	-	138	90	5,183
Capital outlay	6,647	-	92,080	-	98,727
Debt service:					
Principal	305	20,586	8,301	-	29,192
Interest and fiscal charges	291	26,555	1,037	-	27,883
Total expenditures	55,418	47,141	143,886	102	246,547
Excess (deficiency) of revenues over (under) expenditures	894	(11,800)	(39,956)	214	(50,648)
Other financing sources (uses):					
Transfers in	754	22,958	34	-	23,746
Transfers out	(161)	(10,145)	(13,920)	-	(24,226)
Proceeds from long-term debt	-	2,772	10,111	-	12,883
Total other financing sources (uses)	593	15,585	(3,775)	-	12,403
Net change in fund balances	1,487	3,785	(43,731)	214	(38,245)
Fund balances, beginning of year	19,278	29,607	131,912	4,633	185,430
Fund balances, end of year	\$ 20,765	\$ 33,392	\$ 88,181	\$ 4,847	\$ 147,185

OTHER SPECIAL REVENUE FUNDS

Special revenue funds are used to account for assets, liabilities, revenues and expenditures related to activities supported by specific taxes or other designated revenue sources. These funds are generally required by statute, charter or ordinance to finance specific government functions. The following special revenue funds have been classified as nonmajor funds:

THE CULTURE AND LEISURE FUND is used to account for a variety of cultural arts activities. Programs in the Culture and Leisure Fund include the Sacramento Zoo, Fairytale Town, Art in Public Places, Old Sacramento Market, H Street Theatre and the Crocker Master Trust.

THE PARKS AND RECREATION FUND is used to account for a variety of parks programs and recreation activities. Programs in the Parks and Recreation Fund include START, Quimby, Special Recreation, Land Park, Sutter Parks, the Special Program Donations and the Ethel MacLeod Hart Trust.

THE GRANTS FUND is used to account for federal, state and other agency grants received for various specific purposes.

THE SPECIAL DISTRICTS FUND is used to account for a variety of programs that provide maintenance, infrastructure, facilities and administration for specific areas of the City. The Special Districts Fund includes the Downtown Sacramento Management District Program, the Landscaping and Lighting Districts Program, the Maintenance Benefit Area Program, the Assessment District Maintenance Program, several Business Improvement Districts and the Special District Administration Program.

City of Sacramento
Other Special Revenue Funds
Combining Balance Sheet
June 30, 2005
(in thousands)

	Culture and Leisure Fund	Parks and Recreation Fund	Grants Fund	Special Districts Fund	Total Other Special Revenue Funds
ASSETS					
Cash and investments held by City	\$ 883	\$ 11,021	\$ 3,228	\$ 13,588	\$ 28,720
Receivables, net:					
Accounts	676	738	5	315	1,734
Intergovernmental	-	2,870	9,119	751	12,740
Interest	-	3	-	-	3
Prepaid items	-	8	-	-	8
Restricted assets:					
Cash and investments held by City	-	-	-	600	600
Total assets	\$ 1,559	\$ 14,640	\$ 12,352	\$ 15,254	\$ 43,805
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 82	\$ 382	\$ 2,655	\$ 982	\$ 4,101
Due to other funds	582	-	1,057	-	1,639
Deposits	16	-	334	-	350
Deferred revenue	437	3,004	13,509	-	16,950
Total liabilities	1,117	3,386	17,555	982	23,040
Fund balances:					
Reserved:					
For encumbrances	18	827	2,274	324	3,443
For debt service	-	-	-	600	600
Unreserved:					
Designated for capital projects	-	1,732	-	3,477	5,209
Designated for subsequent years' expenditures	337	130	-	590	1,057
Undesignated	87	8,565	(7,477)	9,281	10,456
Total fund balances	442	11,254	(5,203)	14,272	20,765
Total liabilities and fund balances	\$ 1,559	\$ 14,640	\$ 12,352	\$ 15,254	\$ 43,805

City of Sacramento
Other Special Revenue Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2005
(in thousands)

	Culture and Leisure Fund	Parks and Recreation Fund	Grants Fund	Special Districts Fund	Total Other Special Revenue Funds
Revenues:					
Intergovernmental	\$ -	\$ 5,918	\$ 23,039	\$ -	\$ 28,957
Charges for services	891	-	-	-	891
Fines, forfeits and penalties	-	-	-	3	3
Interest, rents, and concessions	181	932	182	259	1,554
Community service fees	-	6,332	-	5	6,337
Assessment levies	-	-	-	18,443	18,443
Donations	45	17	-	-	62
Miscellaneous	-	65	-	-	65
Total revenues	1,117	13,264	23,221	18,710	56,312
Expenditures:					
Current:					
General government	-	-	-	441	441
Police	-	-	17,297	-	17,297
Fire	-	-	1,685	-	1,685
General services	-	-	230	1,014	1,244
Transportation	-	-	499	3,492	3,991
Convention, culture and leisure	1,017	-	-	50	1,067
Parks and recreation	-	8,811	2,582	5,620	17,013
Development services	-	-	51	181	232
Neighborhood services	-	-	250	-	250
Nondepartmental	-	-	-	4,955	4,955
Capital outlay	-	1,908	2,268	2,471	6,647
Debt service:					
Principal	-	-	-	305	305
Interest and fiscal charges	5	-	-	286	291
Total expenditures	1,022	10,719	24,862	18,815	55,418
Excess (deficiency) of revenues over (under) expenditures	95	2,545	(1,641)	(105)	894
Other financing sources (uses):					
Transfers in	-	710	44	-	754
Transfers out	(44)	(29)	(88)	-	(161)
Total other financing sources (uses)	(44)	681	(44)	-	593
Net change in fund balances	51	3,226	(1,685)	(105)	1,487
Fund balances (deficit), beginning of year	391	8,028	(3,518)	14,377	19,278
Fund balances (deficit), end of year	\$ 442	\$ 11,254	\$ (5,203)	\$ 14,272	\$ 20,765